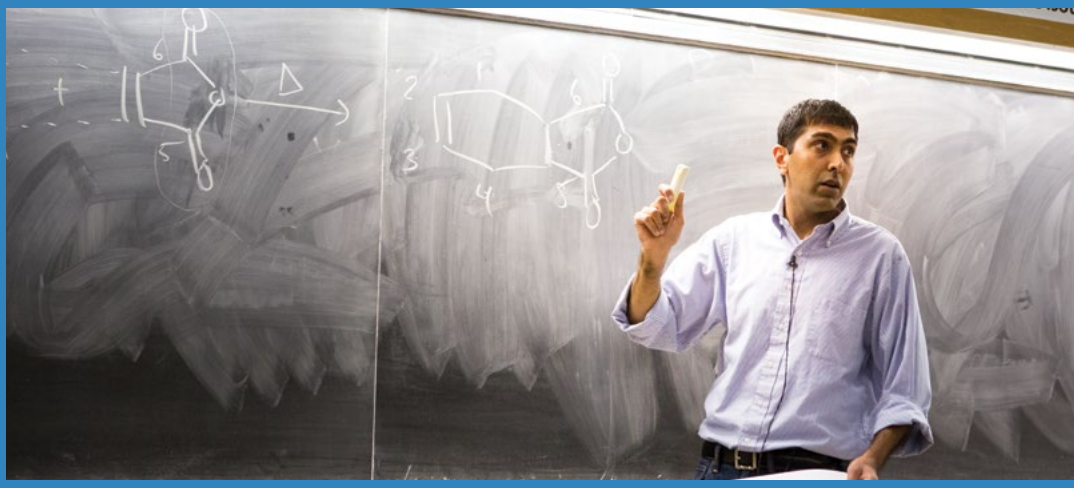
UCLA



2016–2017

ANNUAL FINANCIAL REPORT

JOSIAH ROYCE HALL

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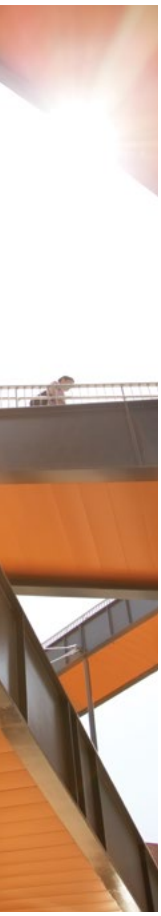


LETTER FROM THE CHANCELLOR

As UCLA prepares to celebrate its first 100 years, prompting us to reflect on our past, this is also an important opportunity to contemplate our future. How we rise to the challenges of our next century will define UCLA's place in the world when future generations celebrate our second centennial. I am proud to report that we are working effectively on many fronts to retain and enhance our position as a leader among universities in a world of new technologies, funding models and opportunities to contribute to Los Angeles and beyond.

Despite declines in state support over recent years, we have worked relentlessly to diversify revenues and realize savings in our operation without ever compromising academic quality, students' time-to-degree or the impact of our research. This is due in no small part to Vice Chancellor and Chief Financial Officer Steven A. Olsen, who will be leaving us this summer to accept a position with the J. Paul Getty Trust. A national search for his replacement is already underway.

In 2016–17, UCLA's total operating and nonoperating revenues were $7.5 billion, an increase of $518 million over the last fiscal year. The largest percentage came from the UCLA Medical Center, at about 32 percent, while educational activities as well as auxiliary enterprises like student housing, food service operations and parking supplied about 27 percent of our revenues. Grants and contracts contributed 12.7 percent; and private giving contributed 4 percent.

Although we remain committed to our role as a public institution, UCLA is increasingly grateful for the incredible generosity of our supporters, who have donated private funds that help us continue UCLA's tradition of innovation and breaking barriers. Now in its fourth year, the Centennial Campaign for UCLA is a testament to the widespread confidence and passion our alumni and friends feel for this campus and its dedication to scholarship, innovation and public service. Thanks to them, we are nearly 90 percent of the way toward our goal of raising $4.2 billion by 2019. One of our key goals with the campaign is to ensure promising students from all walks of life have the opportunity to attend UCLA. To that end, we have so far raised approximately $400 million in student support.

In the 2016–17 fiscal year, we achieved several fundraising milestones, including:

- A record $551 million in cash
- A record 104 gifts and pledges of $1 million or more
- A record 5,800 gifts from young alumni, defined as those who have graduated from UCLA in the past 10 years
- The largest corporate gift in UCLA history — $50 million from Mattel, Inc. to expand UCLA Mattel Children's Hospital

Our faculty's exceptional work also continues to attract an average of $1 billion annually in research grants. In 2016–17, UCLA received 5,779 awards totaling $1.06 billion.

UCLA's global reputation remains consistently high in international and national rankings. UCLA is the top American public university, tied with Berkeley, in U.S. News & World Report's "Best Colleges" rankings for 2018. The Wall Street Journal/Times Higher Education Rankings similarly listed UCLA as the nation's top public university in the current fiscal year.

I am especially pleased our campus is regularly recognized for economic diversity and opportunity. In 2017, UCLA was recognized by The New York Times as the number one top-tier university for enrolling low- and middle-income students, and by Forbes as the number two best value college in the nation.

There were many noteworthy developments this year that furthered UCLA's mission of teaching, research and service. Among the highlights of the 2016–17 year:

- We opened Geffen Hall, the new home of medical education on campus, named for entertainment executive and philanthropist David Geffen. With multimedia technology and collaborative spaces, the facility is designed to promote interdisciplinary partnerships and new advances in teaching.
- We signed an agreement with the Los Angeles Unified School District to partner in creating Horace Mann UCLA Community School, our second joint effort aimed at fostering quality learning and a college-going culture. This builds upon UCLA's successful first community school, formed in 2009 in the Pico-Union neighborhood, where the college-acceptance rate has more than tripled to 99 percent.

"I am grateful to our Bruin family throughout California and around the world. Your dedication and support makes all of this work possible. Thank you for helping UCLA move boldly into its next century, well prepared to support new generations of thinkers and leaders."

Gene D. Block

- The UCLA Meyer and Renee Luskin Conference Center was named California's second LEED Platinum-certified building of its kind by the U.S. Green Building Council. It is also the nation's sixth newly constructed venue of its kind to be certified LEED Platinum. Since opening in Fall 2016, the Luskin Center has hosted numerous events, bringing together diverse groups in pursuit of knowledge and discovery.
- We opened two new buildings for UCLA Athletics: The Wasserman Football Center and the Mo Ostin Basketball Center. These cutting-edge facilities provide practice, training, treatment and meeting spaces and ensure that our teams continue to compete at the highest level.

Additionally, our men's water polo team brought home another national title in 2017, UCLA's 114th NCAA team championship. And our student-athletes in all sports continued to achieve in the classroom, with 340 student-athletes named to the UCLA Athletic Director's Honor Roll in Fall 2016, a campus record.

Finally, I want to highlight two initiatives that truly exemplify the public part of being a public research university: a new phase of the UCLA Depression Grand Challenge, and our strengthened commitment to supporting U.S. military veterans and their families.

- The Depression Grand Challenge is one of two grand challenges UCLA is taking on — the other is focused on environmental sustainability in Los Angeles. We are aiming for nothing short of transformation in the way depression is detected, diagnosed and treated. In Fall 2017, UCLA began offering — for the first time in our history — voluntary depression screening and treatment for the entire incoming freshman class. To our knowledge, no other university has ever attempted screening of this nature and scale. As we grow this initiative for others in our campus community, we will aim to share best practices worldwide to cut the burden of depression.
- In 2016, Congress approved an agreement between UCLA and the U.S. Department of Veterans Affairs to provide additional services and expertise for veterans and their families. As part of this enhanced partnership, this past fall we opened on the VA campus in West Los Angeles a new legal clinic and a first-of-its-kind family wellness center. We will soon open a center to address homelessness, mental health and substance abuse. We hope this partnership can be a model for veteran care nationwide.

These are just a couple of the ways in which UCLA is using its resources and capabilities to make a meaningful difference in the lives of people everywhere.

I am grateful to our Bruin family throughout California and around the world. Your dedication and support makes all of this work possible. Thank you for helping UCLA move boldly into its next century, well prepared to support new generations of thinkers and leaders.

Gene D. Block
Chancellor

MEYER & RENEE
LUSKIN
CONFERENCE
CENTER

CAMPUS AND FINANCIAL HIGHLIGHTS

CAMPUS AND FINANCIAL HIGHLIGHTS

Years ended, 2017 and 2016 *(in millions of dollars)*	2017	2016
CAMPUS LAND AREA	419 acres	419 acres
ENROLLMENT - FALL QUARTER		
Undergraduates	30,873	29,585
Graduates, and Interns and Residents	14.074	13,716
EMPLOYEE COUNT		
Full-Time Equivalent (includes over 7,000 casuals and students)	35,363	34,109
NET POSITION		
Beginning of Year (restated)	$(238)	$374
End of Year	$(77)	$(238)
ASSETS:		
Total Current Assets	$2,337	$2,265
Total Noncurrent Assets and Deferred Outflows	$12,336	$12,926
	$14,673	$15,191
LIABILITIES:		
Total Current Liabilities	$1,592	$1,419
Total Noncurrent Liabilities and Deferred Inflows	$13,158	$14,010
	$14,750	$15,429
REVENUE:		
Operating Revenue	$6,499	$5,934
Nonoperating Revenue (Core Activities)	$984	$1,031
	$7,483	$6,965
Principal Sources of Operating Revenue:		
Student Tuition and Fees	$833	$786
Grants and Contracts	$948	$931
Sales and Services	$4,409	$4,030
Principal Sources of Nonoperating Revenue:		
State Educational Appropriations	$511	$500
EXPENDITURES:		
Operating Expense	$7,593	$7,493
Nonoperating Expense (Core Activities)	$165	$139
	$7,758	$7,632
Principal Operating Expenditures:		
Salaries and Wages	$3,562	$3,278
Benefits	$1,534	$1,808
Supplies and Materials	$847	$797

MANAGEMENT'S DISCUSSION AND ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to help readers of the University of California Los Angeles' (UCLA's) financial statements better understand the financial position and operating activities for the year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2015, 2016, 2017 etc.) in this discussion refer to the fiscal years ended June 30.

UCLA is one of 10 campuses within the University of California system (the University). The UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB). The three basic financial statements in this report—the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows—encompass the UCLA campus and its discretely presented components, the UCLA Foundation and the Jonsson Cancer Center Foundation. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements. However, the MD&A and the notes to the financial statements focus mainly on the campus; information relating to The UCLA Foundation can be found in the separately issued audited financial statements at www.uclafoundation.org, and the Jonsson Cancer Center Foundation (JCCF) separately issued audited financial statements can be found at www.cancer.ucla.edu. Also, audited financial statements for the UCLA Medical Center are in the University of California's combined Medical Centers Report, available at www.ucop.edu.

The University of California

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research, health care, and public service. The University has annual resources of nearly $33.4 billion and encompasses 10 campuses, five medical centers, four law schools, and a statewide Division of Agricultural and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy (DOE). The consolidated audited financial report of the University of California is available at www.universityofcalifornia.edu/reportingtransparency/.

The Los Angeles Campus of the University of California

UCLA was founded in 1919 and is financially the largest campus in the 10-campus University of California system, with an annual budget of approximately $7.6 billion. The financial statements included in this annual report encompass the following:

Campus – The Los Angeles campus spans 419 acres in Westwood and is devoted to undergraduate and graduate scholarship serving over 44,000 students in the following schools:

College of Letters and Science

General
Humanities
Institute of the Environmental & Sustainability
International Institute
Life Science
Physical Sciences
Social Sciences

Health Sciences Programs

David Geffen School of Medicine
Jonathan and Karin Fielding School of Public Health
School of Dentistry
School of Nursing

Professional Schools

Graduate School of Education & Information Studies
Henry Samueli School of Engineering & Applied Sciences
John E. Anderson Graduate School of Management
Meyer and Renee Luskin School of Public Affairs
School of Law
School of the Arts and Architecture
School of Theater, Film and Television
Herb Alpert School of Music

Basic Biomedical Sciences

Letters and Science: Basic Biomedical Sciences
Medicine: Basic Biomedical Sciences

During the 2016-17 academic year, UCLA offered approximately 7,050 different undergraduate and graduate courses in 176 subject areas, producing more than 420,000 enrollments in primary classes and 205,000 enrollments in laboratory and discussion sections over the course of the year. Known for academic excellence, many of UCLA's programs are rated among the best in the nation, and some are among the best in the world. Few universities offer the range and diversity of academic programs available to UCLA students.

The campus' mission also includes a strong dedication to research and public service. The UCLA community focuses on environmental issues, economic and social policy concerns, public education reform, and the cost of health care and medical advances. More than 5,700 research projects are being conducted on campus at any given time. For 2017, UCLA expenditures for research were approximately $826 million. In 2016, the most recently available ranking, the Center for Measuring University Performance, placed UCLA among the nation's top public and private research universities. This ranking was based on the number of competitively awarded research grants and contracts, faculty membership in the National Academies, faculty awards, the number of doctorates awarded, and other factors relating to research.

UCLA Extension offers the public more than 5,000 continuing education courses annually, covering professional and career development, academic enrichment and personal growth. These courses attract around 40,000 individual students from the many communities of Southern California and beyond.

UCLA employed over 47,000 faculty, administrators and staff (including casual and student employees), filling approximately 35,000 full-time-equivalent positions, and spent $5.1 billion in compensation costs for the fiscal year ended June 30, 2017. UCLA's employees are distinguished for their contributions to education, research, and public service.

Distinguished honors and awards to UCLA alumni and faculty include:

- Three alumni awarded Nobel Prizes for chemistry (1951, 1984, 2010), two for economics (1990, 2009), one for physiology or medicine (2013), and one for peace (1950)
- Four faculty members awarded Nobel Prizes for chemistry (1960, 1987, 1997, 2016), one for physics (1965), one for physiology or medicine (1998), and one for economic sciences (2012)
- Eleven alumni awarded Rhodes Scholarships (1936, 1948, 1955, 1962, 1969, 1971, 1973, 1997, 2009, 2010)
- Nine faculty members awarded the President's National Medal of Science from the National Science Foundation (1964, 1966, 1970, 1989, 1993, 1994, 1996, 2000, 2007)
- One faculty member awarded the Fields Medal for Outstanding Discoveries in Mathematics from the International Congress of the International Mathematical Union (2006)
- Three alumni, two faculty, and one staff member awarded the Presidential Medal of Freedom (1963, 1984, 1993, 2000, 2003)

The Center for the Art of Performance at UCLA, the Fowler Museum at UCLA, the Hammer, and the UCLA Film & Television Archive provide both academic programs and a wide array of public events second to none.

During the fiscal year 2017, UCLA's on-campus physical plant included one on-campus building under construction, along with 221 existing buildings. Off campus, UCLA owns or manages 141 buildings and has 206 existing leases for various programmatic activities. UCLA has 28 libraries, housing more than 12 million volumes, a cogeneration power plant, the Luskin Conference Center, the UCLA Conference Center at Lake Arrowhead, on-campus student housing for more than 13,000 students, off-campus student and faculty apartments, and more.

UCLA Health System is comprised of Ronald Reagan UCLA Medical Center, UCLA Medical Center Santa Monica, Resnick Neuropsychiatric Hospital at UCLA, Mattel Children's Hospital UCLA, and the many UCLA Faculty Practice Groups. With its wide-reaching system of primary-care and specialty-care offices throughout the region, UCLA Health System is among the most comprehensive and advanced health care systems in the world. According to U.S. News and World Report's America's Best Hospital Honor Roll, UCLA Health ranks as one of the top five hospitals in the nation. UCLA's nationally recognized programs based in Westwood and in Santa Monica have been ranked highly in 25 of the 26 specialty areas. The UCLA Medical Center comprises the primary teaching hospitals for the David Geffen School of Medicine at UCLA. Information relating to UCLA Health System can be found at www.uclahealth.org/.

Key Operating metrics for the UCLA Medical Center for the fiscal years ended June 30 are as follows:

			Increase / (Decrease)	
	2017	**2016**	**Amount**	**%**
Operating Statistics				
Licensed beds*	784	795	(11)	(1.4)%
Admissions	40,966	41,282	(316)	(0.8)%
Average daily census	741	744	(3)	(0.4)%
Discharges	40,979	41,263	(284)	(0.7)%
Average length of stay	6.6	6.6		
Patient days	270,550	272,191	(1,641)	(0.6)%
Case mix index	2.00	1.99	0.01	0.5%
Outpatient visits	776,341	806,359	(30,018)	(3.7)%
Admissions and Patient Days	270,550	272,191	(1,641)	(0.6)%
Outpatient Visits				
Hospitals and clinics	695,529	727,264	(31,735)	(4.4)%
Emergency visits	80,812	79,095	1,717	2.2%
Total	776,341	806,359	(30,018)	(3.7)%

*Licensed beds decreased by 11 beds due to the closure of the Ronald Reagan rehabilitation center.

An overview – The following table reflects the composition of UCLA for 2017, listing enrollment figures, full-time-equivalent employee figures and operating expenses by organization.

(in millions of dollars)	Undergraduates	Graduates, Interns and Residents	Full Time Equivalent (Includes Students)	Salaries and Wages	Benefits	Other Expenditures	Total Expenditures
Organizations	**Fall Enrollment**		**Employees**		**Operating Expenses**		
College of Letters and Science	25,398	2,726	3,717	$338	$149	$107	$594
School of the Arts and Architecture	599	321	447	34	16	12	62
School of Dentistry		496	374	40	16	23	79
School of Education & Information Studies		782	454	41	18	39	98
School of Engineering and Applied Science	3,482	2,187	797	84	37	34	155
School of Law		1,176	291	38	13	31	82
School of Management		2,131	435	62	22	51	135
School of Medicine		2,267	8,648	1,042	333	518	1,893
School of Nursing	193	406	145	14	6	6	26
School of Public Affairs		514	174	18	7	13	38
School of Public Health		560	301	33	13	23	69
School of Theater, Film and Television	354	354	288	24	11	7	42
Basic Biomedical Sciences	552	15	164	16	6	10	32
Neuropsychiatric Hospital			319	38	21	11	70
Neuropsychiatric Institute			598	66	28	38	132
Medical Center			8,902	939	507	813	2,259
University Extension			467	43	17	37	97
All Others	295	139	8,842	692	314	328	1,334
Subtotal Organizations	30,873	14,074	35,363	3,562	1,534	2,101	7,197
Depreciation Expense						375	375
Impairment of Capital Assets						2	2
Other Operational Expenditures						19	19
Total	30,873	14,074	35,363	$3,562	$1,534	$2,497	$7,593

UCLA implemented new accounting policies for retiree health benefits. These changes in accounting policies are designed to improve transparency by requiring recognition of the net retiree health benefits liability in the financial statements. This standard requires recognition of retiree health benefit expense using a systematic method, designed to match the cost of retiree health benefits with service periods for eligible employees.

Financial information for 2016 and 2015 have been restated to retroactively apply these new accounting treatments.

THE CAMPUS' FINANCIAL POSITION *(in millions of dollars)*

The Statement of Net Position presents UCLA's financial position at the end of each fiscal year. It displays the assets, deferred outflows, liabilities, and deferred inflows of the campus. The difference between assets, deferred outflows, liabilities, and deferred inflows is net position.

The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2017, 2016, and 2015 are as follows:

Assets, deferred outflows & inflows, liabilites, net position

(in millions of dollars)	**2017**	**2016**	**2015**
ASSETS			
Investments	$5,934	$5,797	$5,129
Accounts receivable, net	922	714	757
Capital assets, net	6,179	6,067	5,891
Other assets	267	262	265
Total assets	**13,302**	**12,840**	**12,042**
DEFERRED OUTFLOWS OF RESOURCES	**1,372**	**2,351**	**1,612**
LIABILITIES			
Debt, including commercial paper	3,653	3,655	3,554
Net pension liability	3,433	4,200	3,088
Net retiree health benefits liability	4,354	4,884	4,151
Other liabilities	1,459	1,455	1,295
Total liabilities	**12,899**	**14,194**	**12,088**
DEFERRED INFLOWS OF RESOURCES	**1,852**	**1,235**	**1,192**
NET POSITION			
Invested in capital assets, net of related debt	2,951	2,759	2,727
Restricted - nonexpendable	283	266	259
Restricted - expendable	1,364	1,690	1, 343
Unrestricted	(4,675)	(4,953)	(3,955)
Total net position	**$(77)**	**$(238)**	**$374**

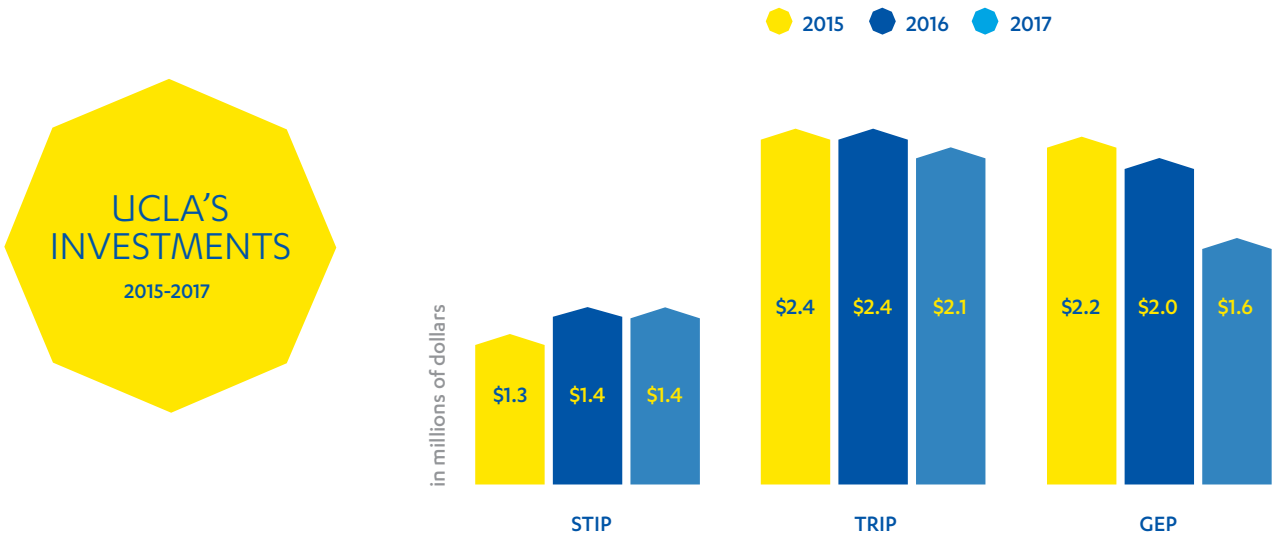
The campus' assets and deferred outflows

UCLA's total assets and deferred outflows have decreased to $14.7 billion in 2017, compared to $15.2 billion in 2016 and $13.7 billion in 2015. Capital assets have increased due to continued investments in facilities, and investments changed due to financial market returns. Deferred outflows fluctuate due to changes in UCLA's net pension and retiree health benefits liabilities.

Investments

Investments held by the University are principally carried in three investment pools: the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP), and the General Endowment Pool (GEP). Cash for operations and bond proceeds for construction expenditures are invested in STIP. The University uses STIP to meet operational liquidity needs. TRIP provides the opportunity to maximize the return on long-term capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP seeks to maximize to a total return objective and is intended to supplement STIP. The University maximizes its use of TRIP while still maintaining sufficient funds in STIP to meet operational and liquidity needs. The GEP is a balanced portfolio and the primary investment vehicle for individual endowments and funds functioning as endowments.

The Regents of the University of California (The Regents) utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. GEP had a positive return of 15.1 percent in 2017, a negative return of 3.5 percent in 2016, and a positive return of 6.1 percent in 2015. TRIP had positive returns of 7.7 percent, 0.3 percent, and 2.6 percent in 2017, 2016, and 2015, respectively. STIP had positive returns of 1.3 percent, 1.3 percent, and 1.4 percent in 2017, 2016, and 2015, respectively.



Accounts receivable, net

Accounts receivable include amounts due from state and federal governments on contracts and grants, patient receivables for medical centers and professional fees, investment income, proceeds from security sales, and amounts due for private grants and contracts. In 2017, receivables increased 29% primarily due to royalty income and an increase in federal contracts and grants awarded to UCLA. Receivables fluctuate based on the timing of collections and investment sales activity.

Capital assets, net

Capital spending continues in order to provide the facilities necessary to support UCLA's teaching, research, and public service mission and for patient care. Capital spending includes constructing and renovating academic buildings, research laboratories, libraries, student services, housing facilities, medical centers and clinical facilities, parking structures, and infrastructure projects. Total additions to capital assets were $506 million in 2017 as compared to $575 million in 2016 and $493 million in 2015. Completed buildings and improvements in 2017 include the Luskin Conference and Guest Center for $148 million, the Geffen Hall for $105 million, and the Jules Stein Seismic Correction and Program Improvement for $54 million.

Major projects under construction include the Engineering VI -Phase 2 with cumulative costs of $59 million, the Wasserman Football Center with cumulative costs of $48 million, the Mo Ostin Basketball Center with cumulative costs of $26 million, and the CHS Seismic Correction and Fire Safety with cumulative costs of $33 million, as of FY 2017.

Other assets

Other assets include cash, investments held by trustees, pledges receivables, note and mortgage receivables, and inventories.

Deferred outflows of resources

Changes in fair values of the University's interest-rate swaps that are determined to be hedging derivatives, losses on debt refundings, and certain changes in the net pension and net retiree health benefits liabilities are reported as deferred outflows of resources. In 2017, deferred outflows decreased due to higher than expected investment returns in the University of California Retirement Plan (UCRP) portfolio.

The campus' liabilities and deferred inflows

UCLA's liabilities and deferred inflows of resources decreased to $14.8 billion in 2017 as compared to $15.4 billion in 2016 and $13.3 billion in 2015. The changes in both 2017 and 2016 were primarily related to the issuance of additional debt to finance capital projects and the changes in the liabilities for pension and retiree health benefits.

Debt, including commercial paper

Capital assets are financed from a variety of sources, including equity contributions, federal and state support, revenue bonds, or bank loans and leases. Commercial paper and bank loans provide interim financing for capital

assets during the construction period. Outstanding debt decreased by $3 million and increased by $101 million in 2017 and 2016, respectively.

UCLA's debt, which is used to primarily finance capital assets, includes $80 million, $125 million, and $237 million of commercial paper outstanding at the end of 2017, 2016, and 2015, respectively. Total outstanding debt was $3.7 billion at the end of 2017 and 2016 compared to $3.6 billion at the end of 2015.

In 2017, $315 million in General Revenue Bonds and $26 million in capital leases were issued to finance and refinance certain UCLA facilities and projects. Reductions to outstanding debt in 2017 were $389 million, including $281 million for one-time principal payments for the refinancing or refunding of previously outstanding debt, and $108 million in principal payments and amortizations.

The University's General Revenue Bond ratings are currently affirmed at Aa2, AA, and AA by Moody's Investors Service, Standard & Poor's, and Fitch, respectively, all with stable outlooks. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa3, AA-, and AA- by Moody's Investors Service, Standard & Poor's, and Fitch, respectively, all with stable outlooks.

Commercial paper borrowings decreased by $45 million in 2017 as compared to 2016, and decreased by $112 million in 2016 compared to 2015. Commercial paper is primarily used as interim financing for construction projects and equipment financing. Commercial paper fluctuates based upon the timing of refinancing construction projects with the issuance of long-term revenue bonds. The University has various revolving credit agreements totaling $1.1 billion with major financial institutions for the purpose of providing additional liquidity for bonds, commercial paper, and other liquidity needs.

Net pension liability and retiree health benefits

The University has a financial responsibility for pension benefits associated with its defined benefit plans and for retiree health benefits. UCLA's net pension liability was $2.5 billion, $3.4 billion, and $2.4 billion in 2017, 2016, and 2015, respectively. The change in net pension liability for 2017 was primarily driven by higher than expected investment returns on the UCRP investment portfolio. The change in net pension liability for 2016 was primarily driven by lower than expected investment returns on the UCRP investment portfolio. UCRP's total investment rate of return was positive 14.5 percent in 2017, negative 2.0 percent in 2016, and positive 4.5 percent in 2015. The discount rate used to estimate the net pension liability was 7.25 percent in 2017, 2016, and 2015.

The University's 2016 and 2015 financial statements have been restated as a result of adopting new accounting standards for retiree health benefits. UCLA's net retiree health benefits liability was $4.4 billion, $4.9 billion, and $4.2 billion, in 2017, 2016, and 2015, respectively. The University funds the retiree health benefits through the University of California Retiree Health Benefit Trust (UCRHBT) based on a projection of benefits on a pay-as-you-go basis and the assets in the trust are not sufficient to fund retiree health benefits. Therefore, the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate is used to discount the retiree health benefit liabilities. The changes in net retiree health benefits liability have been primarily driven by the changes in discount rates used to estimate the retiree health benefit liability. The discount rates as of June 30, 2017, 2016, and 2015 were 3.58 percent, 2.85 percent, and 3.80 percent, respectively.

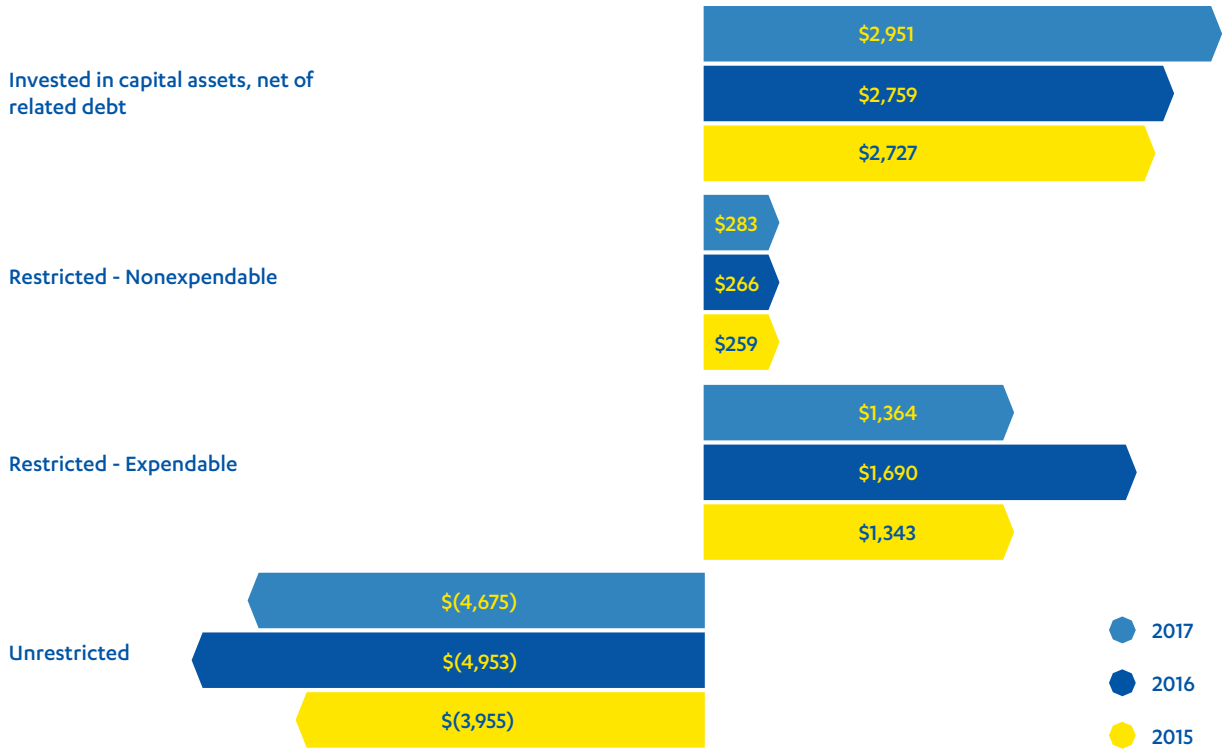
Other liabilities

Other liabilities consist of accounts payable, accrued salaries, other employee benefits, unearned revenue, funds held for others, federal refundable loans, self-insurance, and obligations under life income agreements. Other liabilities were $1.5 billion, $1.5 billion, and $1.3 billion for 2017, 2016, and 2015, respectively.

Deferred inflows of resources

Deferred inflows of resources are related to UCLA's gains on debt refundings, sales of certain future patent royalty revenues, and certain changes in the net pension and net retiree health benefits liabilities. Deferred inflows of resources increased in 2017 by $617 million due to the increase in the discount rate for estimating the net retiree health benefit liability. Deferred inflows of resources increased in 2016 by $43 million due to lower than expected investment returns on the UCRP portfolio offset by sales of certain future royalty revenues and the decrease in the discount rate for estimating the net retiree health benefit liability.

THE CAMPUS' NET POSITION *(in millions of dollars)*



Net position represents the residual interest in UCLA's assets and deferred outflows after all liabilities and deferred inflows are deducted. Net position was restated for 2016 and 2015 as a result of adopting new accounting rules. UCLA's net position was negative $77 million in 2017, compared to negative $238 million in 2016 and positive $374 million in 2015. Net position is reported in the following categories: net investment in capital assets; restricted, nonexpendable; restricted, expendable; and unrestricted.

Net investment in capital assets

The portion of net position invested in capital assets, net of accumulated depreciation and related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, was $3.0 billion in 2017 compared to $2.8 billion and $2.7 billion for the years ended June 30, 2016 and 2015, respectively. UCLA continues to invest in its physical facilities to support growth.

Restricted, nonexpendable

Restricted, nonexpendable net position includes the corpus of UCLA's permanent endowments and the estimated fair value of certain planned giving arrangements. In 2017 and 2016, the increases in restricted nonexpendable net position were principally due to the receipt of new gifts.

Restricted, expendable

Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee-held investments; or other third-party receipts. The increases or decreases in restricted, expendable funds are principally due to unrealized appreciation or depreciation, respectively, in the fair value of investments related to restricted gifts and funds functioning as endowments.

Unrestricted

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Unrestricted net position is negative due primarily to obligations for pension and retiree health benefits exceeding UCLA's assets available to pay such obligations. Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the reserves are allocated for academic and research initiatives or programs and for capital and other purposes.

THE CAMPUS' RESULTS OF OPERATIONS

The Statement of Revenues, Expenses, and Changes in Net Position is a presentation of the campus' operating results, and indicates whether the financial condition has improved or deteriorated. In accordance with the Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts, and investment income. Results of operations for 2016 and 2015 have been restated as a result of adopting new accounting policies for retiree health benefits. A summarized comparison of the operating results for 2017, 2016, and 2015, arranged in a format that matches the revenue supporting the core activities of UCLA with the expenses associated with core activities, is as follows: (fig.01)

(fig.01) **Operating Results 2015-2017**

	Year Ended June 30, 2017			Year Ended June 30, 2016			Year Ended June 30, 2015		
(in millions of dollars)	**Operating**	**Non-operating**	**Total**	**Operating**	**Non-operating**	**Total**	**Operating**	**Non-operating**	**Total**
REVENUES									
Student tuition and fees, net	$833		$833	$786		$786	$755		$ 755
State educational appropriations		$511	511		$500	500		$473	473
Federal Pell Grants		50	50		50	50		50	50
Grants and contracts, net	948		948	931		931	909		909
Sales and services, net	4,409		4,409	4,030		4,030	3,805		3,805
Private gifts, net		308	308		314	314		285	285
Investment income, net		101	101		105	105		101	101
Other revenues, net	309	14	323	187	62	249	197	14	211
Revenues supporting core activities	**6,499**	**984**	**7,483**	**5,934**	**1,031**	**6,965**	**5,666**	**923**	**6,589**
EXPENSES									
Salaries and benefits	5,095		5,095	5,087		5,087	4,447		4,447
Scholarships and fellowships	118		118	97		97	96		96
Utilities	54		54	53		53	53		53
Supplies and materials	847		847	797		797	674		674
Depreciation and amortization	375		375	364		364	348		348
Interest expense		138	138		139	139		137	137
Other expenses	1,104	27	1,131	1,095		1,095	1,059	6	1,065
Expenses associated with core activities	**7,593**	**165**	**7,758**	**7,493**	**139**	**7,632**	**6,677**	**143**	**6,820**
Income (loss) from core activities	**(1,094)**	**819**	**(275)**	**(1,559)**	**892**	**(667)**	**(1,011)**	**780**	**(231)**
OTHER NONOPERATING ACTIVITIES									
Net appreciation (depreciation) in fair value of investments			364			(159)			134
Income (loss) before other changes in net position			**89**			**(826)**			**(97)**
OTHER CHANGES IN NET POSITION									
State capital appropriations			1			2			9
Capital gifts and grants			35			37			16
Permanent endowments			7			3			12
Transfers to (from) core activities			29			172			(32)
Increase in net position			**161**			**(612)**			**(92)**
NET POSITION									
Beginning of year, as previously reported			(238)			374			1,980
Cumulative effect of accounting changes									(1,514)
Beginning of year, as restated			(238)			374			466
End of year			**$(77)**			**$(238)**			**$374**

REVENUES SUPPORTING CORE ACTIVITIES

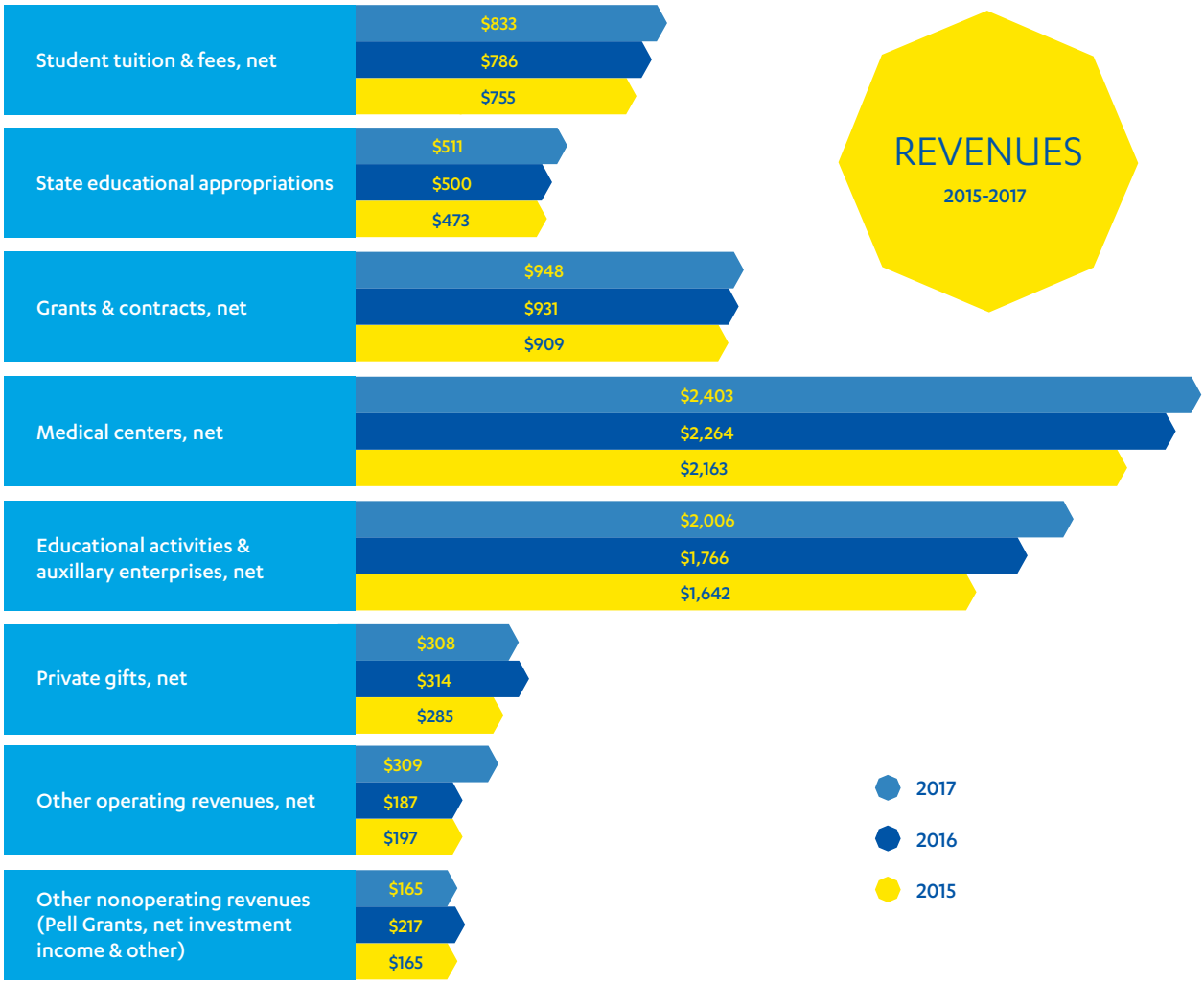
Revenues to support UCLA's core activities, including those classified as nonoperating revenues, were $7.5 billion, $7.0 billion, and $6.6 billion in 2017, 2016, and 2015, respectively. These diversified sources of revenue increased by $518 million in 2017 and $376 million in 2016.

The State of California's educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of UCLA. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country.

Gifts to the campus allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from the Medical Center, educational activities, and auxiliary enterprises such as student housing, food service operations, and parking.

Revenues in the various categories have changed as follows:

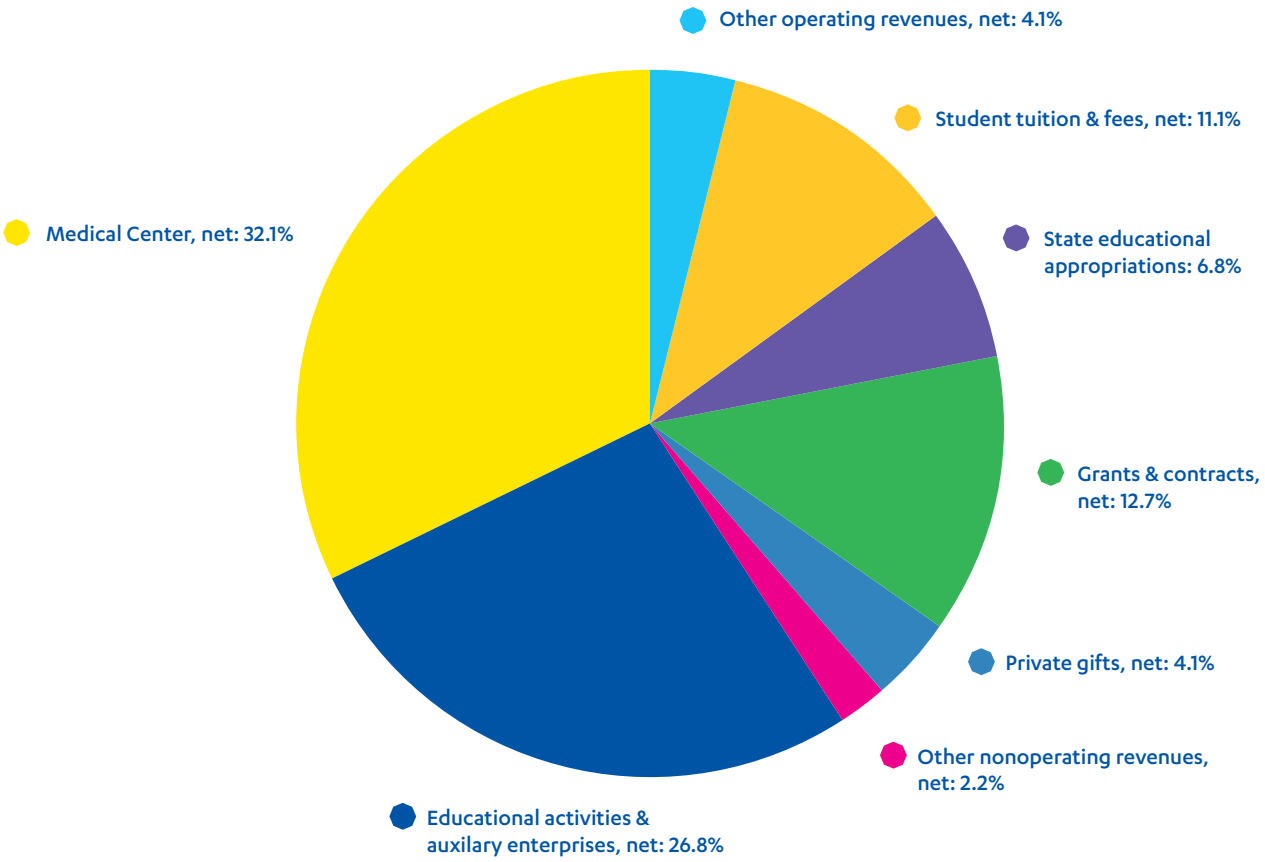
Revenues (in millions of dollars)



A major financial strength of UCLA includes a diverse source of revenues, including those from student fees, federally sponsored grants and contracts, the Medical Center, the State of California, private support, and self-supporting enterprises. The variety of fund sources has become increasingly important over the past several years.

Categories of both operating and nonoperating revenue that support UCLA's core activities in 2017 are as follows:

2017 Revenues (percent of total)



Student tuition and fees, net

Net student tuition and fees were $833 million, $786 million, and $755 million in 2017, 2016, and 2015, respectively. Scholarship allowances, or financial aid, are the difference between the stated charge for tuition and fees and the amount that is paid by the student and third parties on behalf of the student and are reported as an offset to revenue. Scholarship allowances of $217 million and $210 million in 2017 and 2016, respectively, were netted against student tuition and fees. Student tuition and fees, net of scholarship allowances, increased by $47 million and $31 million in 2017 and 2016, respectively.

Student Tuition & Fees, Net

(in millions of dollars)	**2017**	**2016**	**2015**
Student tuition & fees	$910	$855	$822
Summer Sessions	50	49	49
University Extension	90	92	91
Scholarship allowance	(217)	(210)	(207)
Total	**$833**	**$786**	**$755**

In 2017, enrollment increased by 3.8 percent and in 2016 enrollment grew by 0.1 percent. Mandatory tuition for resident undergraduates did not change in 2017 or 2016. Certain nonresident undergraduates and resident and nonresident graduate students experienced increases in mandatory tuition and fees. Professional degree supplement tuition varies by discipline; certain increases were approved for 2017 and 2016.

State educational appropriations

Educational appropriations from the State of California were $511 million, $500 million, and $473 million in 2017, 2016, and 2015, respectively. State education appropriations increased in 2017 and 2016 by $11 million and $27 million, respectively. The budget framework agreed to in 2015 with the governor called for base budget adjustments of 4.0 percent annually over four years, through 2019. The framework also called for no tuition increases in 2017 and 2016, with tuition increases generally pegged to the rate of inflation beginning in 2018. The student service fee increased 5.0 percent in 2017 and 2016, with the customary one-third of the increase being directed to financial aid. The framework also acknowledged the University's plan to increase nonresident supplemental tuition by up to 8.0 percent for 2017 and 2016 and 5.0 percent thereafter. The framework recognized the increases in professional degree supplemental tuition approved by The Regents in November 2014 for existing and new programs and called for no increases in law school tuition through 2019.

Grants and contracts, net

Revenues from federal, state, private, and local government grants and contracts—including an overall facilities and administration cost recovery of $189 million, $183 million, and $182 million in 2017, 2016, and 2015, respectively—were $948 million, $931 million, and $909 million in 2017, 2016, and 2015, respectively.

Grants and Contracts

(in millions of dollars)	**2017**	**2016**	**2015**
Federal government	$589	$586	$584
State agencies	56	47	53
Private industries	241	232	211
Local government	62	66	61
Total	**$948**	**$931**	**$909**

In 2017, federal grants and contracts revenue increased $3 million, or 0.5 percent, as compared to 2016. In 2016, federal grants and contracts revenue increased $2 million, or 0.3 percent, as compared to 2015. Federal grants and contracts include federal facilities and administrative cost recovery of $136 million, $137 million, and $134 million in 2017, 2016, and 2015, respectively. Federal budget cuts have slowed UCLA's growth in federal grants and contracts.

Medical Center, net

Medical center revenues, including state hospital fee grants, net of allowances, increased $139 million, or 6.1 percent, in 2017 and increased $103 million, or 4.8 percent, in 2016. Revenues increased in 2017 due to an increase in third-party settlements and additional supplemental funding. Revenues increased in 2016 due to an increase in third-party settlements, higher inpatient volume, and additional supplemental funding. In response to health care reform and increasing employee costs, the Medical Center continues to invest in expanding services.

Educational activities and auxiliary enterprises, net

Revenue from educational activities, primarily medical professional fees, net of allowances, increased by $178 million, or 13.0 percent, in 2017 and $108 million, or 8.6 percent, in 2016. The growth is generally associated with an expanded patient base and improved collections.

Sales from auxiliary enterprises, including on-campus student housing, off-campus housing, intercollegiate athletics, ASUCLA's bookstore, and parking services, increased by $62 million, or 15.5 percent, in 2017 and increased by $16 million, or 4.3 percent, in 2016.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

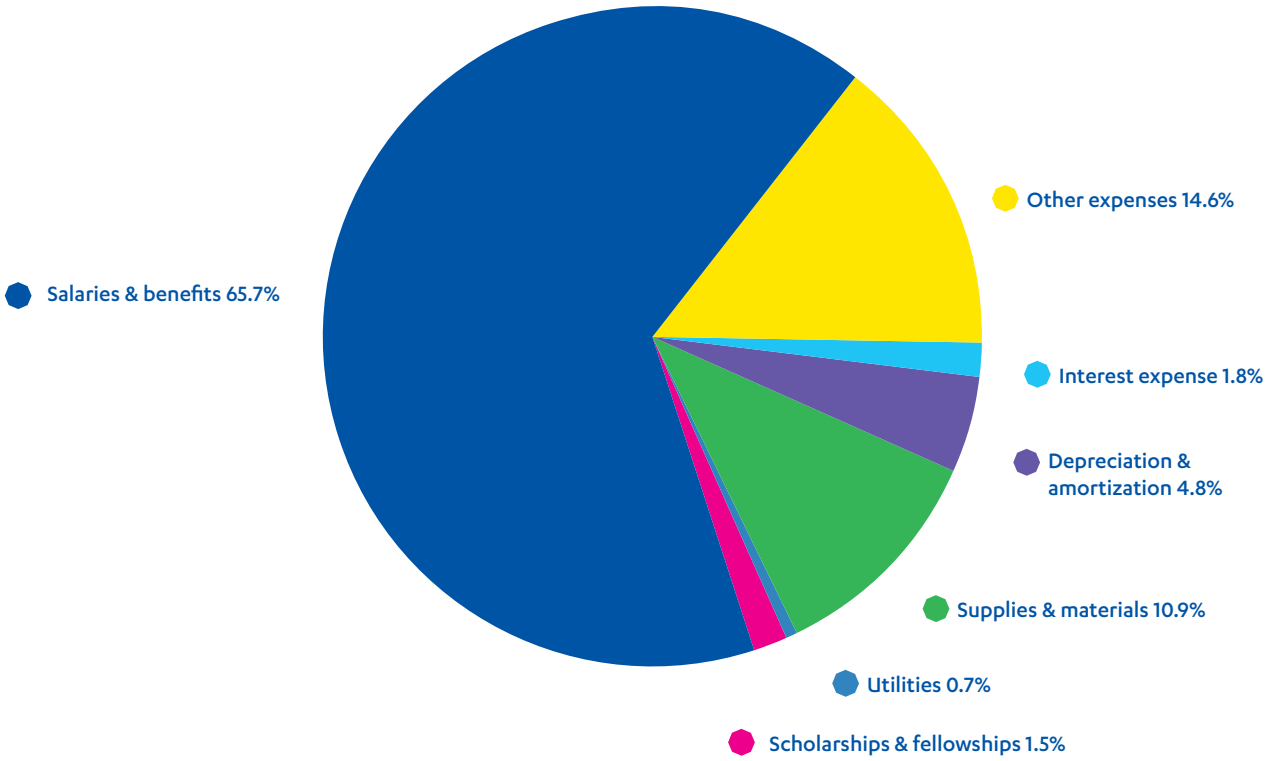
Expenses associated with UCLA's core activities, including those classified as nonoperating expenses, were $7.8 billion, $7.6 billion, and $6.8 billion in 2017, 2016, and 2015, respectively. Expenses increased in 2017 by $126 million and in 2016 by $812 million, primarily due to growth in UCLA's operations. Pension expenses decreased in 2017 and increased in 2016 as a result of actual earnings compared to expected earnings on the UCRP portfolio.

Expenses in the various categories are as follows:

Expenses (in millions of dollars)

The categories of both operating and nonoperating expenses related to UCLA's core activities in 2017 are as follows:

2017 Expenditures (percent of total)



Salaries and benefits

Approximately 66.0 percent of UCLA's expenses were related to salaries and benefits. There were 35,363 full-time-equivalent (FTE) employees in UCLA in 2017 as compared to 34,109 FTEs in 2016.

Salaries and benefits increased by 0.2 percent in 2017. In 2017, salaries increased 8.6 percent, 3.7 percent due to an increase in the number of FTEs and 4.8 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by $30 million, or 4.4 percent, in 2017, due to higher health insurance costs. Pension expense decreased by $208 million, or 30.7 percent, due to better than expected investment returns. Retiree health expense decreased by $96 million, or 20.8 percent due to the higher discount rate in 2017.

Salaries and benefits increased by 14.4 percent in 2016 due to growth in UCLA's operations. In 2016, salaries increased 7.5 percent, 3.0 percent due to an increase in the number of FTEs and 4.5 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by $48 million, or 7.8 percent, in 2016, due to higher health insurance costs. Pension expense increased by $283 million, or 71.9 percent, due to lower than expected investment returns. Retiree health expense increased by $80 million, or 20.9 percent due to the lower discount rate in 2016.

Scholarships and fellowships

UCLA places a high priority on student financial aid as part of its commitment to affordability. Scholarship allowances, representing financial aid and fee waivers awarded by UCLA, were $256 million, $262 million, and $263 million in 2017, 2016, and 2015, respectively. Scholarship and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, were $374 million, $359 million, and $359 million in 2017, 2016, and 2015, respectively.

On a combined basis, as UCLA continues its commitment to provide financial aid support for needy students, financial aid in all forms, including allowances, increased by $21 million, or 21.5 percent, in 2017 as compared to 2016.

Supplies and materials

During 2017 and 2016, supplies and materials increased by $50 million, or 6.3 percent, and $123 million, or 18.2 percent, respectively. The largest increases occurred at the Medical Center and it is principally due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications. Additionally, medical supplies increased as a result of surgical volumes and laboratory supply costs. UCLA continues to find opportunities to manage the costs of supplies and materials.

Other expenses

Other expenses consist of a variety of expense categories, including travel, rent, insurance, repairs and maintenance, plus any gain or loss on the disposal of capital assets and other nonoperating expenses. Other expenses increased by $36 million, or 3.3 percent, in 2017.

Operating losses

In accordance with the GASB's reporting standards, operating losses were $1.1 billion, $1.6 billion, and $1.0 billion in 2017, 2016, and 2015, respectively. The operating losses in 2017, 2016, and 2015 were partially offset by $984 million, $1.031 billion, and $923 million, respectively, of net nonoperating revenue that supports core operating activities of UCLA. Expenses associated with core activities in 2017, 2016, and 2015 exceeded revenue available to support core activities by $275 million, $667 million, and $231 million, respectively.

Other nonoperating activities

UCLA's other nonoperating activities, consisting of net appreciation or depreciation in the fair value of investments, are noncash transactions and, therefore, are not available to be used to support operating expenses. In 2017, UCLA recognized net appreciation in the fair value of investments of $364 million, as compared to net depreciation of $159 million during 2016 and net appreciation of $134 million during 2015. The University's portfolio experienced positive returns in the equity markets in 2017. The University's portfolio experienced declines in 2016 principally due to declines in the equity markets.

Other changes in net position

Similar to the other nonoperating activities discussed above, other changes in net position are also not available to support UCLA's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Only income earned from gifts of permanent endowments is available in future years to support the specified program.

THE CAMPUS' CASH FLOWS

The Statement of Cash Flows presents the significant sources and uses of cash. A summary comparison of cash flows for 2017 and 2016 is as follows:

The Campus' Cash Flows

Cash flows *(in millions of dollars)*	**2017**	**2016**	**Change**
Cash received from operations	$6,181	$6,030	$151
Cash payments for operations	(6,903)	(6,395)	(508)
Net cash used by operating activities	**(722)**	**(365)**	**(357)**
Net cash provided by noncapital financing activities	986	1,472	(486)
Net cash provided by operating and noncapital financing activities	**264**	**1,107**	**(843)**
Net cash provided (used) by capital and related financing activities	(527)	(507)	(20)
Net cash provided (used) by investing activities	114	(86)	200
Net increase (decrease) in cash and cash equivalent	**(149)**	**514**	**(663)**
Cash and cash equivalent, beginning of year	1,427	913	514
Cash and cash equivalent, end of year	**$1,278**	**$1,427**	**$149**

UCLA's cash in demand-deposit accounts is minimized by sweeping available cash balances into investment accounts managed by the Office of the President on a daily basis. Cash provided by operating and noncapital financing activities ranged between $264 million and $1.1 billion for the last two years. In accordance with GASB requirements, certain cash flows relied upon for fundamental operational support of the core instruction mission of the campus are reported as noncapital financing activities, including state educational appropriations, private gifts and grants, and investment income.

Net cash of $527 million was used in 2017 for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include new external financing, state and federal capital appropriations, and gifts for capital purposes.

The year-to-year change in cash provided (used) by investing activities is largely the result of routine timing of investment purchases, sales and, to a lesser extent, investment income.

LOOKING FORWARD

UCLA, as part of the University of California system, is a world center of learning, known for generating a steady stream of talent, knowledge, and social benefits, and has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal, and private funding and promotes discovery of new knowledge that fuels economic growth.

The budget framework agreed to with the governor provided the University with base budget adjustments of 4.0 percent annually from 2016 through 2019. The framework also called for no tuition increases in 2016 and 2017, with tuition increases generally pegged to the rate of inflation beginning in 2018. The Student Services Fee increased 5.0 percent in 2016 and each year thereafter with the customary one-third of the increase being directed to financial aid. Fifty percent of the remaining revenue generated from the increase will be used to enhance student mental health services, and the remaining

50.0 percent will be distributed to support other student services programs. The framework also acknowledged the University's plan to increase nonresident supplemental tuition by up to 8.0 percent in 2016 and 2017 and 5.0 percent thereafter. The framework also recognized the increases in professional degree supplemental tuition approved by The Regents in November 2014 for existing and new programs and calls for no increases in law school tuition through 2019. In addition to these funding elements, the budget framework includes a number of performance-related provisions. The state budget for 2018 also includes one-time funds of $169 million for UCRP.

UCLA remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. The University is a unique national resource for helping the nation address competitiveness and economic initiatives.

In July 2017, The Regents approved increasing the University contribution rate for UCRP to 15 percent (from 14 percent) effective July 1, 2018. The University funds retiree health benefits on a pay-as-you-go basis.

The UCLA Medical Center has a positive operating margin, although it continues to face financial and competitive challenges in its regional market, along with the added costs and responsibilities related to its function as an academic institution. The demand for health care services and the cost of providing them continue to increase significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, along with the costs of maintaining and upgrading facilities, UCLA's Medical Center also faces additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. The growth in costs of the publicly funded programs and health care reform will likely continue to reduce rates or limit payment growth, placing downward pressure on operating results for the Medical Center.

UCLA must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. Support for UCLA's capital program is expected to be provided from a combination of sources, including the State of California, external financing, gifts and other sources.

Additional budget information can be found at www.universityofcalifornia.edu/news/budget/welcome.html. Additional information concerning state budget matters and the state's financial condition may be found on the website of the California Department of Finance at www.dof.ca.gov.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by UCLA, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that UCLA expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. UCLA does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

TRANSMITTAL LETTER

The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Los Angeles (UCLA), for the fiscal years ended June 30, 2017 and 2016.

The UCLA Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers, whose report is transmitted to The Regents.

The accompanying Financial Statements and Management's Discussion and Analysis detail only local campus activity. This separate UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB).

In compliance with GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, the financial activity of the legally separate, tax-exempt UCLA Foundation and the Jonsson Cancer Center Foundation can be found discretely recorded on the campus' financial statements under a separate column titled "Foundations."

Respectfully submitted,

Allison Baird-James
Associate Vice Chancellor/Controller
Corporate Financial Services

FINANCIAL STATEMENTS

UNIVERSITY OF CALIFORNIA, LOS ANGELES
STATEMENTS OF NET POSITION (UNAUDITED) At June 30, 2017 and 2016

	Campus		Foundation	
(in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
ASSETS				
Cash	$13,544	$20,974	$5,279	$5,576
Short-term investments	1,264,806	1,406,300	381,986	299,346
Investments held by trustees	168	172		
Accounts receivable, net	922,007	714,134	32,830	32,538
Pledges receivable, net	3,913	4,924	69,897	96,554
Notes and mortgages receivable, net	6,600	5,889		
Inventories	57,815	54,318		
Other current assets	67,730	58,601		
Current Assets	**2,336,583**	**2,265,312**	**489,992**	**434,014**
Investments	4,669,008	4,391,082	2,170,920	1,862,426
Investments held by trustees	751	746		
Pledges receivable, net	7,225	7,867	382,630	378,340
Notes and mortgages receivable, net	77,106	75,435		
Capital assets, net	6,179,054	6,067,286		
Other noncurrent assets	32,064	32,064	7,209	9,327
Noncurrent assets	**10,965,208**	**10,574,480**	**2,560,759**	**2,250,093**
Total Assets	**13,301,791**	**12,839,792**	**3,050,751**	**2,684,107**
DEFERRED OUTFLOWS OF RESOURCES	**1,371,507**	**2,351,483**		
Liabilites				
Accounts payable	467,914	398,822	9,833	7,229
Accrued salaries and benefits	157,183	247,613		
Deferred revenue	340,537	296,263		
Commercial paper	79,876	124,687		
Current portion of long-term debt	373,351	215,074		
Funds held for others			244,355	230,724
Other current liabilities	173,410	136,332	4,040	3,852
Current liabilities	**1,592,271**	**1,418,791**	**258,228**	**241,805**
Federal refundable loans	63,457	63,091		
Obligations under life income agreements			32,449	29,430
Long-term debt	3,199,286	3,315,363		
Net pension liability	2,529,144	3,396,637		
Pension payable to UCOP	904,153	803,780		
Net retiree health benefits liability	4,354,001	4,884,420		
Other noncurrent liabilities	256,537	311,812		
Noncurrent liabilities	**11,306,578**	**12,775,103**	**32,449**	**29,430**
Total liabilities	**12,898,849**	**14,193,894**	**290,677**	**271,235**
DEFERRED INFLOWS OF RESOURCES	**1,851,601**	**1,235,008**	**1,723**	**1,460**
NET POSITION				
Net investment in capital assets	**2,950,773**	**2,759,389**		
Restricted:				
Nonexpendable: endowments	282,056	265,827	1,098,820	1,000,954
Nonexpendable: annuity and life income funds	1,163	72	12,661	10,134
Expendable: endowments and gifts	1,394,915	1,248,898	1,466,932	1,314,855
Expendable: other including debt service, loans, capital projects, and appropriations	(31,385)	441,573	22,485	18,638
Total restricted	**1,646,749**	**1,956,370**	**2,600,898**	**2,344,581**
Unrestricted (deficit)	**(4,674,674)**	**(4,953,386)**	**157,453**	**66,831**
Total net position	**$(77,152)**	**$(237,627)**	**$2,758,351**	**$2,411,412**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, LOS ANGELES
EXPENSES AND CHANGES IN NET POSITION (UNAUDITED) Years Ended June 30, 2017 and 2016

	Campus		Foundation	
(in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
OPERATING REVENUES				
Student tuition and fees, net	$832,780	$785,950		
Grants and contracts, net:				
Federal	588,609	586,208		
State	55,982	47,427		
Private	241,527	231,601		
Local	62,259	65,465		
Medical Center, net	2,403,157	2,264,490		
Educational activities, net	1,548,596	1,370,956		
Auxiliary enterprises, net	457,298	395,779		
Foundation private gifts			$305,412	$258,482
Other operating revenues, net	309,115	186,658	78	54
Total operating revenues	**6,499,323**	**5,934,534**	**305,490**	**258,536**
OPERATING EXPENSES				
Salaries and wages	3,561,504	3,278,080		
Pension benefits	468,364	676,004		
Retiree health benefits	367,136	463,540		
Other employee benefits	698,207	668,657		
Scholarships and fellowships	118,279	97,384		
Utilities	53,741	53,216		
Supplies and materials	847,521	796,932		
Depreciation and amortization	374,672	364,284		
Campus foundation grants			255,198	229,011
Other operating expenses	1,103,795	1,095,246	37,013	34,887
Total operating expenses	**7,593,219**	**7,493,343**	**292,211**	**263,898**
Operating income (loss)	**(1,093,896)**	**(1,558,809)**	**13,279**	**(5,362)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	510,684	499,582		
Build America Bonds federal interest subsidies	10,344	10,361		
State hospital fee grants	2,229	1,594		
Federal Pell Grants	50,314	49,564		
Private gifts, net	308,100	314,330		
Investment income:				
Short Term Investment Pool	57,731	63,718		
Endowment, net	42,940	41,370		
Foundation			17,434	14,301
Net appreciation (depreciation) in fair value of investments	363,986	(159,003)	247,246	(77,469)
Interest expense	(137,725)	(138,817)		
Gain on disposal of capital assets	1,109	2,039		
Other nonoperating revenues (expenses)	(26,968)	47,771	(1,739)	805
Net nonoperating revenues (expenses)	**1,182,744**	**732,509**	**262,941**	**(62,363)**
Income (loss) before other changes in net position	**88,848**	**(826,300)**	**276,220**	**(67,725)**
OTHER CHANGES IN NET POSITION				
State capital appropriations	989	1,361		
Capital gifts and grants, net	34,577	37,492		
Permanent endowments	6,639	2,927	70,719	70,138
Transfers	29,422	172,961		
Increase (decrease) in net position	**160,475**	**(611,559)**	**346,939**	**2,413**
NET POSITION				
Beginning of year, as previously reported	(237,627)	2,043,180	2,411,412	2,408,999
Cumulative effect of accounting changes		(1,669,248)		
Beginning of year, restated	(237,627)	373,932	2,411,412	2,408,999
End of year	**$(77,152)**	**$(237,627)**	**$2,758,351**	**$2,411,412**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, LOS ANGELES
TRANSFERS (UNAUDITED) Years Ended June 30, 2017 and 2016

	Campus	
(in thousands of dollars)	**2017**	**2016**
Due from retirement of indebtedness		$34,233
Due to intercampus	$(44,982)	(69,729)
Unexpended plant	233,088	(198,493)
Retirement of indebtedness	(217,849)	61,665
Investment in plant:		
Intrafund transfer assets	(43)	(511)
Intrafund transfer depreciation	507	10
Loan	(143)	(136)
Total Transfers	**$(29,422)**	**$(172,961)**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, LOS ANGELES
STATEMENT OF CASH FLOWS (UNAUDITED) Years Ended June 30, 2017 and 2016

	Campus		Foundation	
(in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$824,354	$781,762		
Grants and contracts	897,997	973,976		
Medical Center	2,371,598	2,250,907		
Educational activities	1,543,424	1,400,040		
Auxiliary enterprises	453,536	404,131		
Collection of loans from students and employees	13,599	12,279		
Private gifts received by foundations			$262,142	$203,597
Payments to employees	(3,610,277)	(3,299,528)		
Payments for pension benefits	(457,758)	(358,809)		
Payments for retiree health benefits	(76,488)	(72,215)		
Payments for other employee benefits	(714,819)	(670,185)		
Payments to suppliers and utilities	(1,890,015)	(1,847,179)		
Payments for scholarships and fellowships	(118,279)	(97,384)		
Loans issued to students and employees	(15,509)	(9,414)		
Foundation operating expenses and grants to campus			(288,678)	(263,002)
Other receipts (payments)	56,836	166,725	(18,428)	(3,358)
Net cash used by operating activities	**(721,801)**	**(364,894)**	**(44,964)**	**(62,763)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	510,684	499,582		
Federal Pell Grants	50,314	49,564		
State hospital fee grants	2,229	1,594		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			52,464	59,081
Other private gifts	309,753	319,231		
Other receipts (payments)	58,892	570,026		
Transfers - intercampus	54,378	31,878		
Net cash provided by noncapital financing activities	**986,250**	**1,471,875**	**52,464**	**59,081**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing				
Proceeds from issuance	39,740	90,023		
Payments of principal	(84,551)	(202,422)		
Interest paid	(1,120)	(895)		
State capital appropriations	805	1,693		
Build America Bonds federal interest subsidies	10,344	10,364		
Capital gifts and grants	59,622	37,657		
Proceeds from debt issuance	418,099	309,191		
Proceeds from the sale of capital assets	16,842	30,879		
Purchases of capital assets	(464,885)	(494,387)		
Refinancing/prepayment of outstanding debt	(281,123)	(18,331)		
Scheduled principal paid on debt and capital leases	(94,776)	(66,655)		
Interest paid on debt and capital leases	(155,650)	(141,318)		
Transfers	10,000	(62,692)		
Net cash used by capital and related financing activities	**(526,653)**	**(506,893)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases) / proceeds from sales and maturities of investments	62,462	(149,392)	(25,118)	(8,846)
Investment income, net of investment expenses	50,818	63,543	17,321	14,006
Net cash provided (used) by investing activities	**113,280**	**(85,849)**	**(7,797)**	**5,160**
Net increase (decrease) in cash and cash equivalents	(148,924)	514,239	(297)	1,478
Cash and cash equivalents, beginning of year	1,427,274	913,035	5,576	4,098
Cash, end of year	13,544	20,974	5,279	5,576
Short-term investments, end of year	1,264,806	1,406,300		
Cash and cash equivalents, end of year	**$1,278,350**	**$1,427,274**	**$5,279**	**$5,576**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, LOS ANGELES
STATEMENT OF CASH FLOWS (CONTINUED) Years Ended June 30, 2017 and 2016

	Campus		Foundation	
(in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$(1,093,896)	$(1,558,809)	$13,279	$(5,362)
Adjustments to reconcile operating (loss) profit to net cash used by operating activities:				
Depreciation and amortization expense	374,672	364,284		
Noncash gifts			(67,530)	(26,738)
Allowance for uncollectible accounts	25,724	26,010	10,198	(1,190)
Loss on impairment of capital assets	2,305	3,712		
Change in Assets and Liabilities:				
Accounts receivable	(203,397)	54,551	(1,208)	819
Pledges receivable			12,170	(26,773)
Investments held by trustees	4	(9)		
Inventories	(3,497)	16		
Deferred charges	(9,129)	(8,865)		
Accounts payable	56,242	44,163	2,236	(229)
Accrued salaries and benefits	(90,428)	(53,075)		
Unearned revenue	44,274	32,864		
Annuities payable			495	(1,423)
Liabilities to life beneficiaries			(30)	(1,899)
Net pension liability	24,194	325,044		
Net retiree health liability	270,295	391,325		
Other liabilities	(119,164)	13,895	(14,574)	32
Net cash used by operating activities	**$(721,801)**	**$(364,894)**	**$(44,964)**	**$(62,763)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$32,218	$49,235		
Change in fair value of interest rate swaps classified as hedging derivatives	27,065	(28,227)		
Gifts of capital assets	$5,192	$23,454	$67,484	$26,738
Gifts of securities and real property - operating			$18,301	11,057
Gifts of securities and real property - for endowment purposes				$842
Interest added to principal				

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) is appointed by the governor and approved by the State Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's basic financial statements as a component unit.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Financial reporting entity.

The Los Angeles campus of the University of California (UCLA) was founded in 1919 and is financially the largest campus in the 10-campus University of California system. The financial statements included in this annual report present the combined activities of the Los Angeles campus, including the UCLA Medical Center. The University of California system is subjected to an annual audit of the consolidated financial statements, of which UCLA is a part. The financial statements for the Los Angeles campus have not been individually audited.

The Associated Students of UCLA (ASUCLA)'s financial data for the fiscal years ended June 30, 2017 and 2016 has been included in the financial statements in order to reflect total financial activity of the UCLA campus. ASUCLA conducts activities on the UCLA campus pursuant to the Statement of Understanding of ASUCLA's Relationship with the University, dated June 28, 1974.

The UCLA Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The Jonsson Cancer Center Foundation is a 501(c)3 organization established for the purpose of encouraging voluntary private gifts for the benefit of the Jonsson Comprehensive Cancer Center at UCLA. The economic resources received or held by the foundations are entirely for the benefit of the campus. Because of the nature and significance of their relationship with the University, including their ongoing financial support, the campus foundations are reported under Governmental Accounting Standards Board (GASB) requirements as discretely presented component units of the campus.

Significant accounting policies.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. The University follows accounting principles issued by the GASB.

GASB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, was implemented by the University as of July 1, 2016. This Statement establishes financial reporting standards for retiree health benefit plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of the retiree health benefit plans in existing guidance by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement revises note disclosures and required supplementary information (RSI) related to the measurement of the retiree health benefits liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Implementation of Statement No. 74 resulted in additional disclosures for the University of California Retiree Health Benefit Trust (UCRHBT).

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the University as of July 1, 2016. This Statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. This Statement requires recognition of a liability equal to the net retiree health benefits liability, which is measured as the total retiree health benefits liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms

and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in net retiree health benefits liability be included in retiree health benefits expense in the period of change. The effects of reporting Statement No. 75 in the University's financial statements for the year ended June 30, 2016 are reflected in the restatement.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the University's fiscal year beginning July 1, 2016. This Statement amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions — an Amendment of GASB Statement No. 27*, to exclude pensions provided to employees of state or local governmental employers through cost-sharing, multiple-employer defined benefit pension plans that are not state or local governmental pension plans. This Statement establishes requirements for the recognition and measurement of pension expense, expenditures and liabilities; note disclosures; and required supplementary information. Implementation of Statement No. 78 had no impact on the financial statements.

The adoption of Statements No. 74, 75, and 78 did not result in any adjustments to the financial statements of the campus foundations or the University of California Retirement System (UCRS).

The significant accounting policies of UCLA are as follows:

Cash and cash equivalents.
UCLA and the foundations consider all balances in demand deposit accounts to be cash. UCLA classifies all other highly liquid cash equivalents with original maturities less than one year as short-term investments.

Investments.
Investments are measured and recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Investment in non-exchange traded debt and equity investments are valued using inputs provided by independent pricing services or by broker/dealers who actively trade in these markets. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds, real estate, real asset, and certain corporate asset-backed securities. Private equities include venture capital partnerships, buyout, and international funds. Fair values for interests in private equity, absolute return partnerships, and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. The valuations are primarily based on the net asset value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2017 and 2016.

Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate, and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

For other investments, the University considers various factors to estimate fair value, such as the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections, as well as discounted cash flow analysis. The selection of an appropriate technique may be affected by

the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

The University exercises due diligence in assessing the external managers' use of and adherence to fair value principles. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, including market conditions, redemption terms, and restrictions and risks inherent to the inputs of the external investment managers' valuation. In situations where the information provided by the external manager is deemed to not be representative of the fair value as of the measurement date, management evaluates specific features of the investment and utilizes supplemental fair value information provided by the external manager along with any relevant market data to measure the investment's fair value.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's Statement of Revenues, Expenses and Changes in Net Position.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded based on fair value at the date of donation.

Campus foundations may invest all or a portion of their investments in University-managed investment pools. Certain securities in these investment pools are included in the University's security lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the Campus Foundations' column.

Investments held by trustees.
The University and campus foundations have been named the irrevocable beneficiary for charitable remainder trusts for which the University and campus foundations are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the University or the campus foundation. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The University and campus foundations are also an income beneficiary of certain trusts where the assets are invested and administered by outside trustees.

Consistent with the University's and campus foundations' recognition policy for pledges of endowments, receivables and contribution revenue associated with these trusts are not reflected in the accompanying financial statements. The University and campus foundations recognize contribution revenue when all eligibility requirements have been met.

Derivative financial instruments.
Derivative instruments are recorded at fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants, options, and swaptions are valued at the settlement price on the last day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the

interest-rate swaps and total return swaps using quoted market prices when available or discounted expected future net cash flows.

The University has entered into interest-rate-swap agreements to limit the exposure of its variable-rate debt to changes in market interest rates. interest-rate-swap agreements involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

Derivatives are recorded at estimated fair value as either assets or liabilities in the Statement of Net Position. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values).

Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation of investments in the Statement of Revenues, Expenses and Changes in Net Position.

Accounts receivable, net.
Accounts receivable, net of allowance for uncollectible amounts, includes reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments, and other receivables. Other receivables include local government and private grants and contracts, educational activities, and amounts due from students, employees and faculty.

Pledges receivable, net.
Unconditional pledges of private gifts to UCLA or the foundations, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the net present value of expected cash flows. Conditional pledges, including pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met. Receivables and contribution revenue associated with externally held investment trusts are not reflected in the accompanying financial statements. The University recognizes contribution revenue and the related pledges receivable when all eligibility requirements have been met.

Notes and mortgages receivable, net.
Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investment, and loans provided by other sources are classified as mortgages receivable in the Statement of Net Position.

Inventories.
Inventories for the campus, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of estimated net realizable value. Inventories for the Medical Center consist primarily of pharmaceuticals and medical supplies which are stated on a first-in, first-out basis at the lower of cost or market.

Capital assets, net.
Land, infrastructure, buildings and improvements, intangible assets, equipment, libraries, collections, and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of acquisition value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual value. Intangible assets include easements, land rights, trademarks, patents, and other similar arrangements. Capital leases are recorded at the estimated present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits directly related to the acquisition, development, and installation of major

software projects, are included in the cost of the capital assets. All costs of land, library collections, and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Equipment under capital leases is amortized over the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

	Years
Infrastructure	25
Buildings and improvements	15-33
Equipment	2-20
Computer software	3-7
Intangible assets	2-indefinite
Library books and collectibles	15

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved, and held for public exhibition, education or research, including art, museum, scientific and rare book collections, are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

Deferred revenue.
Unearned revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees for housing and dining services.

Funds held for others.
Funds held for others result from the Foundations acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the Foundations.

Federal refundable loans.
Certain loans to students are administered by UCLA with funding primarily supported by the federal government. UCLA's Statement of Net Position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Bond premium.
The premium received in the issuance of long-term debt is amortized as a reduction to interest expense over the term of the related long-term debt.

Self-insurance programs.
The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. Settlements did not exceed self-insured or supplementally insured coverage for each in any of the past three fiscal years.

Obligations under life income agreements.
Obligations under life income agreements represent trusts with living income beneficiaries where UCLA has a residual interest. The investments associated with these agreements are recorded at fair value. The discounted present value of any income beneficiary interest is reported as a liability in the Statement of Net Position. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the Statement of Revenues, Expenses and Changes in Net Position. Resources that are expendable upon maturity are classified as restricted, expendable net position; all others are classified as restricted, non-expendable net position.

Pollution remediation obligations.
Upon an obligating event, UCLA estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated that UCLA is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost of recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2017 and 2016 reducing the pollution remediation liability.

Deferred outflows of resources and deferred inflows of resources.
Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that applies to a future period, respectively. UCLA classifies gains on refunding of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the shorter of the remaining life of the old or new debt.

UCLA classifies an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease as deferred outflows of resources.

Changes in net pension liability and net retiree health benefit liability not included in pension expense and retiree health benefits expense, respectively, are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension and retiree health liabilities are reported as deferred outflows of resources.

Net position.
Net position is required to be classified for accounting and reporting purposes into the following categories:

Net investment in capital assets. This category includes all of UCLA's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted. UCLA and the foundations classify the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by UCLA or the foundations, is classified as nonexpendable net position. This includes UCLA's and the foundations' permanent endowment funds.

Also included in nonexpendable net position are minority interests, which include the net position of legally separate organizations attributable to other participants.

Expendable. The net position whose use by UCLA or the foundations is subject to externally imposed restrictions that can be fulfilled by actions of UCLA or the foundations pursuant to those restrictions or that expire by the passage of time is classified as expendable net position.

Unrestricted. The net position that is not subject to externally imposed restrictions governing its use is classified as unrestricted net position. UCLA's unrestricted net position may be designated for specific purposes by management or The Regents. The campus foundations' unrestricted net position may be designated for specific purposes by their Boards of Trustees. Substantially, all of UCLA's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Restricted or unrestricted resources are spent based upon a variety of factors, including funding restrictions, consideration of prior and future revenue sources, the type of expense incurred, UCLA's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost. Unrestricted net position is negative due primarily to liabilities for pension and retiree health benefits exceeding UCLA's assets available to pay such obligations.

Revenues and expenses.
Operating revenues of UCLA include receipts from student tuition and fees, grants and contracts for specific operating activities, sales and services from medical centers, educational activities, and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of UCLA are presented in the Statement of Revenues, Expenses and Changes in Net Position as operating activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of UCLA are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of UCLA.

The foundations are established to financially support UCLA. Private gifts to the foundations are recognized as operating revenues since, in contrast to UCLA, such contributions are fundamental to the core mission of the foundations. Foundation grants to UCLA are recognized as operating expenses by the foundations. Private gift or capital gift revenues associated with the foundation grants to UCLA are recorded by UCLA as gifts when the foundations transfer the gifts to UCLA.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, state hospital fee grants, Build America Bonds, federal interest subsidies, Federal Pell Grants, private gifts for other than capital purposes, investment income, net appreciation (or depreciation) in the fair value of investments, interest expense, and the gain on the disposal of capital assets.

State capital appropriations, capital gifts and grants, and gifts for endowment purposes are classified as other changes in net position.

Student tuition and fees.
Substantially all of the student tuition and fees provide for current operations of UCLA. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers.

UCLA recognizes scholarship allowances as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center and other fees, and the amount that is paid by the student and third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances are netted against student tuition and fees in the Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30 as follows:

(in thousands of dollars)

Scholarship Allowance	**2017**	**2016**
Student tuition & fees	$216,839	$209,874
Sales & services auxillary enterprises	$39,181	$51,882
Total	**$256,020**	**$261,756**

State appropriations.
The State of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational, retirement, or other specific operating purposes are reported as operating expenses. State appropriations for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

Grant and contract revenue.
UCLA receives grant and contract revenue from governmental and private sources. UCLA recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UCLA's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2017, the facilities and administrative cost recovery totaled $189 million, which consisted of $136 million from federally sponsored programs and $53 million from other sponsors. For the year ended June 30, 2016, the facilities

and administrative cost recovery totaled $183 million, which consisted of $137 million from federally sponsored programs and $46 million from other sponsors.

Medical center revenue.
Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

Net pension liability.
UCLA records pension obligations equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the defined benefit plans has been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt high-quality municipal bond rate when plan assets are not available.

Pension expense is recognized for benefits earned during the period, interest on unfunded liability, and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows and outflows, and are recognized over five years.

Retiree health benefits and liability.
UCLA's net retiree health benefits liability is measured as the total retiree health benefits liability, less the amount of the University of California Retiree Health Benefit Trust (UCRHBT) fiduciary net position. The fiduciary net position and changes in net position of UCRHBT has been measured consistent with the accounting policies used by the Trust. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the Health Benefit Trust's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

Expense for retiree health benefits is recognized for benefits earned during the period, interest on the unfunded liability, and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for retiree health benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Campus and medical center contributions toward retiree health costs made to UCRHBT are shown as operating activities in the Statement of Cash Flows.

Compensated absences.
UCLA accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification, and compensatory time based upon job classification and hours worked.

Endowment spending.
Under provisions of California law, the Uniform Prudent Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of UCLA programs.

Tax exemption.
The University is recognized as a tax-exempt organization

under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. The UCLA Foundation, the Jonsson Cancer Center Foundation and ASUCLA are exempt under Section 501(c)(3).

Use of estimates.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

New accounting pronouncements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the University's fiscal year beginning July 1, 2017. This statement addresses when Irrevocable Split-Interest Agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets. The University is evaluating the effect that Statement No. 81 will have on its financial statements.

In December 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the University's fiscal year beginning July 1, 2018. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. The Statement requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. Disclosure requirements include a general description of the asset retirement obligation and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability, and other relevant information. The University is evaluating the effect that Statement No. 83 will have on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for the University's fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The University is evaluating the effect that Statement No. 84 will have on its financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for the University's fiscal year beginning July 1, 2017. The Statement addresses practice issues that have been identified during the implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits. The University is evaluating the effect Statement No. 85 will have on its financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the University's fiscal year beginning July 1, 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with resources other than the proceeds of the refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this Statement revises existing standards for prepaid insurance associated with extinguished debt. The University is evaluating the effect Statement No. 86 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the University's fiscal year beginning July 1, 2020. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments, and certain regulated leases. The University is evaluating the effect Statement No. 87 will have on its financial statements.

1. CASH

UCLA cash is maintained and managed centrally by the University of California. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Under University policy, deposits are only held at financial institutions that maintain an issuer rating on long-term debt of A3 or higher by Moody's, A- or higher by Standard & Poor's or an Asset Peer Group rating of 65 or higher as defined by Sheshunoff Bank Rating Reports. Ratings for one of the University's banks are below these thresholds. This institution has deposited funds in excess of the bank balances as of June 30, 2107 as collateral for the University's deposits in the State of California agency pool. At June 30, 2017 and 2016, the carrying amount of the University's demand deposits, generally held in five nationally recognized banking institutions, was $203.4 million and $266.6 million, respectively, compared to bank balances of $159.7 million and $230.5 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. The University's deposits are uninsured and uncollateralized. UCLA does not have significant exposure to foreign currency risk in demand deposit accounts.

The carrying amount of the campus foundations' cash at June 30, 2017 and 2016 was $5 million and $6 million, respectively, compared to bank balances at June 30, 2017 and 2016 of approximately $2 million and $4 million, respectively. The differences between the cash compared to bank balances is due to deposits in transit and cash awaiting investment. Bank balances for the campus foundations at June 30, 2017 and 2016 were approximately $3 million and $2 million, respectively, in excess of the FDIC limits. The foundations do not have exposure to foreign currency risk in their cash.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's investments and establishes investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP), Total Return Investment Pool (TRIP), General Endowment Pool (GEP), and other investment pools managed by the Chief Investment Officer, or are separately invested. Pursuant to The Regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Committee on Investments of The Regents.

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for UCLA is invested in STIP. The available cash in endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in STIP.

Investments authorized by The Regents for STIP include fixed-income securities with a maximum maturity of five and one-half years. In addition, for STIP, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms up to 40 years.

TRIP allows participant campuses the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. Investments authorized by The Regents for TRIP include a diversified portfolio of equity, fixed-income securities, and alternate investments.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements.

Investments authorized by The Regents for GEP, other investment pools and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with exposure to private equities. The University's investment portfolios may include foreign currency-denominated equity securities. The fixed-income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed-income investment guidelines permit the use of futures and options on fixed-income instruments in the ongoing management of the portfolios. Real estate investments are authorized for all pools except STIP. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for all pools except STIP.

Derivative instruments, including futures, forward contracts, options and swap contracts, are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Derivatives are not used for speculative purposes.

More detail about the University of California's investments, securities lending, derivative financial instruments and investments held by trustees can be found in the audited University of California Annual Financial Report.

3. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible accounts are as follows:

(in thousands of dollars)	UCLA State & Federal Government	UCLA Medical Center	UCLA Other	UCLA Total	UCLA Foundations
At June 30, 2017					
Accounts receivable	$156,730	$429,409	$395,022	$981,161	$32,830
Allowance for uncollectible accounts	(820)	(44,060)	(14,274)	(59,154)	
Accounts receivable, net	$155,910	$385,349	$380,748	$922,007	$32,830
At June 30, 2016					
Accounts receivable	$85,709	$404,355	$290,053	$780,117	$32,538
Allowance for uncollectible accounts	(276)	(50,565)	(15,142)	(65,983)	
Accounts receivable, net	$85,433	$353,790	$274,911	$714,134	$32,538

Other accounts receivable are primarily related to private grants and contracts, medical professional fees, investment sales, tuition and fees, auxiliary enterprises, insurance rebates, and legal settlements.

The foundations' accounts receivable are primarily related to investment income.

The expense for uncollectible accounts has either increased (decreased) the following revenues for the years ended June 30:

(in thousands of dollars)	**2017**	**2016**
Student tuition & fees	$108	$297
Grants and contracts:		
Federal	(585)	(52)
State	41	104
Private	489	(204)
Local	41	154
Medical Center	(24,572)	(25,364)
Educational activities	(1,261)	(959)
Auxiliary enterprises	(1)	30
Other operating revenues	16	(16)
Expense for uncollectible accounts	**$(25,724)**	**$(26,010)**

4. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30 is summarized as follows:

	UCLA		UCLA Foundations	
(in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
Total pledges receivable outstanding	$13,860	$15,522	$555,197	$600,108
Less: Unamortized discount to present value	(170)	(236)	(93,486)	(98,881)
Allowance for uncollectible pledges	(2,552)	(2,495)	(9,184)	(26,333)
Total pledges receivable, net	**11,138**	**12,791**	**452,527**	**474,894**
Less: Current portion of pledges receivable	(3,913)	(4,924)	(69,897)	(96,554)
Noncurrent portion of pledges receivable	**$7,225**	**$7,867**	**$382,630**	**$378,340**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2017 and thereafter are as follows:

(in thousands of dollars)	**UCLA**	**UCLA Foundations**
Year Ending June 30		
2018	$6,334	$75,307
2019	2,801	58,121
2020	2,775	51,439
2021	1,450	46,506
2022	500	37,635
2023-2027		132,998
Beyond 2028		153,191
	$13,860	**$555,197**

Adjustments to the allowance for uncollectible pledges for UCLA have decreased private gift revenue by $65,000 and $70,000 for the years ended June 30, 2017 and 2016, respectively.

5. NOTES AND MORTGAGES RECEIVABLE

UCLA notes and mortgages receivable, along with allowance for uncollectible amounts, are as follows:

(in thousands of dollars)	Current	Noncurrent Notes	Noncurrent Mortgages	Total
At June 30, 2017				
Notes and mortgages receivable	$7,698	$69,195	$10,849	$87,742
Allowance for uncollectible amounts	(1,098)	(2,824)	(114)	(4,036)
Notes and mortgages receivable, net	**$6,600**	**$66,371**	**$10,735**	**$83,706**
At June 30, 2016				
Notes and mortgages receivable	$6,998	$66,897	$11,310	$85,205
Allowance for uncollectible amounts	(1,109)	(2,653)	(119)	(3,881)
Notes and mortgages receivable, net	**$5,889**	**$64,244**	**$11,191**	**$81,324**

6. CAPITAL ASSETS

UCLA's capital asset activity for the years ended June 30 is as follows:

(in thousands of dollars)

Original Cost	2015	Additions	Disposals	2016	Additions	Disposals	2017
Land	$146,246	$33,564		$179,810	$(5,872)	$(9,684)	$164,254
Infrastructure	7,385			7,385			7,385
Buildings and improvements	7,070,619	226,544	$(30,879)	7,266,284	449,674	(4,293)	7,711,665
Equipment	1,180,856	104,680	(42,279)	1,243,257	131,929	(48,183)	1,327,003
Intangible assets	261,803	20,288	(6,212)	275,879	11,993	(4,230)	283,642
Libraries and collections	704,145	33,168	(550)	736,763	34,321	(1,120)	769,964
Special collections	111,404	4,161	(136)	115,429	4,487		119,916
Construction in progress	364,849	152,357		517,206	(120,907)		396,299
Capital assets, at original cost	**$9,847,307**	**$574,762**	**$(80,056)**	**$10,342,013**	**$505,625**	**$(67,510)**	**$ 10,780,128**

Accumulated Depreciation and Amortization	2015	Depreciation & Amortization	Disposals	2016	Depreciation & Amortization	Disposals	2017
Infrastructure	$6,440	$114		$6,554	$113		$6,667
Buildings and improvements	2,667,954	219,397	$(6,557)	2,880,794	224,927		3,105,721
Equipment	716,558	87,970	(36,293)	768,235	89,596	$(45,360)	812,471
Intangible assets	80,255	31,864	(1,896)	110,223	33,941	(1,147)	143,017
Libraries and collections	484,884	24,939	(902)	508,921	26,094	(1,817)	533,198
Accumulated depreciation and amortization	**3,956,091**	**364,284**	**(45,648)**	**4,274,727**	**374,671**	**(48,324)**	**4,601,074**
Capital assets, net	**$5,891,216**			**$6,067,286**			**$6,179,054**

7. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment, or for such other purposes as are authorized by The Regents, through the issuance of debt obligations. Commercial paper and bank loans provide for interim financing. Long-term financing includes revenue bonds, capital lease obligations, and other borrowings.

UCLA's outstanding debt at June 30 is as follows:

(in thousands of dollars)	Weighted Average Interest Rate	Interest Rate Range	Maturity Years	2017	2016
Interim financing:					
Commercial paper		0.9 - 1.3%	2017	$79,876	$124,687
Long-term financing:					
University of California General Revenue Bonds					
Fixed rate	4.7%	1.0 - 7.6%	2018-2115	1,347,462	1,309,536
Variable rate	0.9%	0.9 - 1.1%	2037-2048	101,469	181,215
University of California Limited Project Revenue Bonds	4.8%	1.0 - 6.3%	2018-2051	842,892	862,776
University of California Medical Center Pooled Revenue Bonds					
Fixed rate	5.5%	0.9 - 6.6%	2018-2049	669,749	596,482
Variable rate	1.3%	0.6 - 1.6%	2018-2047	60,076	61,273
University of California Medical Center Revenue Bonds					42,560
Unamortized bond premium				187,379	156,470
University of California revenue bonds	**4.4%**			**3,209,027**	**3,210,312**
Capital lease obligations		0.8 - 10.0%	2017-2042	130,736	114,680
Other University borrowings		Various	2018-2056	232,874	205,445
Total outstanding debt				**3,652,513**	**3,655,124**
Less: Commercial paper				(79,876)	(124,687)
Current portion of outstanding debt				(373,351)	(215,074)
Noncurrent portion of outstanding debt				**$3,199,286**	**$3,315,363**

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2017 and 2016 was $140 million and $144 million, respectively. Interest expense, net of investment income, totaling $2 million and $5 million, was capitalized during the years ended June 30, 2017 and 2016, respectively. The remaining $138 million and $139 million in 2017 and 2016, respectively, is reported as interest expense in the Statement of Revenues, Expenses and Changes in Net Position.

Outstanding debt activity

The activity with respect to UCLA's current and noncurrent debt for the years ended June 30 is as follows:

(in thousands of dollars)	Revenue Bonds	Capital Lease Obligations	Other Borrowings	Total
Year Ended June 30, 2017				
Long-term debt and capital leases at June 30, 2016	$3,210,312	$114,680	$205,445	$3,530,437
New obligations	315,155	26,476	58,930	400,561
Bond premium	30,858			30,858
Refinancing or prepayment of outstanding debt	(262,222)		(18,901)	(281,123)
Scheduled principal payments	(71,756)	(10,420)	(12,600)	(94,776)
Amortization of bond premium	(13,320)			(13,320)
Long-term debt and capital leases at June 30, 2017	**3,209,027**	**130,736**	**232,874**	**3,572,637**
Less: Current portion	(202,270)	(16,105)	(154,976)	(373,351)
Noncurrent portion at June 30, 2017	**$3,006,757**	**$114,631**	**$77,898**	**$3,199,286**
Year Ended June 30, 2016				
Long-term debt and capital leases at June 30, 2015	$3,173,150	$67,104	$77,014	$3,317,268
New obligations	115,045	49,236	131,084	295,365
Bond premium	13,943			13,943
Refinancing or prepayment of outstanding debt	(15,795)			(15,795)
Scheduled principal payments	(64,995)	(1,660)	(2,653)	(69,308)
Amortization of bond premium	(11,036)			(11,036)
Long-term debt and capital leases at June 30, 2016	**3,210,312**	**114,680**	**205,445**	**3,530,437**
Less: Current portion	(201,447)	(10,996)	(2,631)	(215,074)
Noncurrent portion at June 30, 2016	**$3,008,865**	**$103,684**	**$202,814**	**$3,315,363**

Commercial paper

The University has available a $2 billion commercial paper program, issued in two series, with tax-exempt and taxable components. Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for the medical centers, standby or interim financing for gift financed projects, and working capital for the University.

The program's liquidity is primarily supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitutes limited obligations of the University. There is no encumbrance, mortgage or other pledge of property securing commercial paper, and the paper does not constitute general obligations of the University.

Commercial paper outstanding for UCLA, including interest rates, at June 30 is as follows:

(in thousands of dollars)	2017		2016	
	Interest Rates	**Outstanding**	**Interest Rates**	**Outstanding**
Taxable	0.93 - 1.26%	$79,876	0.39 - 0.60%	$ 124,687
Total outstanding		$79,876		$124,687

The expectation is that the University will continue to utilize available investments for liquidity support for the commercial paper program. Alternatively, the University may utilize lines of credit from external banks for the purpose of providing additional liquidity support for the commercial paper program. As of June 30, 2017, the University has two revolving credit agreements totaling $700 million. There were no borrowings against the revolving credit lines as of June 30, 2017.

University of California revenue bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center, and research facilities of the University. They generally have annual principal and semiannual or monthly interest payments, serial and term maturities, contain sinking fund requirements, and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue Bond Indentures require the University to use the facilities in a way that will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the General Revenue Bond Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary, and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond Indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds. UCLA General Revenues were $3.7 billion and $3.2 billion for June 30, 2017 and 2016, respectively. The pledge of General Revenues for interest-rate-swap agreements is on a parity basis with the University's General Revenue Bonds.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The

Indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. UCLA pledged revenues for the years ended June 30, 2017 and 2016 were $492 million and $445 million, respectively.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities and are collateralized by a joint and several pledges of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond Indenture requires the medical centers to set rates, charges, and fees each year sufficient for the medical centers' total operating and nonoperating revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Pledged revenues of the five medical centers for the years ended June 30, 2017 and 2016 were $11.4 billion and $10.4 billion, respectively. Pledged revenues for the UCLA Medical Center for years ended June 30, 2017 and 2016 were $2.5 billion and $2.4 billion, respectively.

Medical Center Revenue Bonds have also financed certain facilities of UCLA's Medical Center and are collateralized by a pledge of the specific gross revenues associated with the Medical Center. The Medical Center Revenue Bond Indenture requires UCLA Medical Center to achieve debt service coverage of 1.1 times, set limitations on encumbrances, indebtedness, disposition of assets and transfer services, and maintain certain other financial covenants.

The pledge of revenues for Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with General Revenue Bonds, but senior to pledges for commercial paper notes.

Medical center gross revenues are pledged under the Indentures for the Medical Center Pooled Revenue Bonds and the UCLA Medical Center Revenue Bonds and certain interest-rate-swap agreements.

The pledge of medical center revenues for interest-rate-swap agreements may be at parity with, or subordinate to, Medical Center Pooled Revenue Bonds.

All indentures permit the University to issue additional bonds as long as certain conditions are met.

2017 activity

In August 2016, Medical Center Pooled Revenue Bonds totaling $315 million, including $262 million of tax-exempt bonds and $53 million taxable bonds, were issued to finance and refinance certain facilities and projects of the Medical Center. Proceeds, including a net bond premium of $49 million, were used to pay for project construction, issuance costs, and refund $226 million of outstanding Medical Center Pooled Revenue Bonds and all of the outstanding Medical Center Revenue Bonds. The bonds mature at various dates through 2047. Simultaneously, a bank standby bond purchase agreement for certain of the University's variable-rate demand bonds was terminated. The University will provide its own liquidity in connection with mandatory and optional tenders and remarketing of these bonds and does not plan to provide any third-party liquidity facility to support this obligation. The interest rates on the variable-rate demand bonds reset daily and an interest-rate swap is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt and taxable bonds have a stated weighted average interest rate of 4.5 percent and 3.0 percent, respectively. The refunding of the outstanding Medical Center Pooled Revenue Bonds and Medical Center Revenue Bonds resulted in a loss of $2 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the term of the refunded bonds. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Medical Center Revenue Bonds resulted in cash flow savings of $60 million and an economic gain of $47 million.

Medical center gross revenues continue to be pledged under the Indenture for the Medical Center Pooled Revenue Bonds and certain interest-rate-swap agreements. The pledge of medical center revenues for interest-rate-swap agreements may be at parity with, or subordinate to, specific Medical Center Pooled Revenue Bonds.

2016 activity

In April 2016, General Revenue Bonds totaling $19 million, including $10 million in tax-exempt bonds and $9 million in taxable bonds, were issued to finance or refinance certain facilities and projects of UCLA. The bonds mature at various dates through 2040. Proceeds, including a bond premium of $2

million, were used to pay for project construction and issuance costs and to refund $16 million of outstanding General Revenue Bonds. The refunding of the outstanding General Revenue Bonds resulted in a loss of $1 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the remaining life of the refunded bonds. The refinancing and refunding of previously outstanding General Revenue Bonds resulted in cash flow savings of $4 million and an economic gain of $2 million. The taxable bonds have a stated weighted average interest rate of 3.3 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.7 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In June 2016, Limited Project Revenue Bonds totaling $97 million, including $90 million tax-exempt bonds and $7 million taxable bonds, were issued to finance or refinance the acquisition, construction, improvement, and renovation of certain athletic, parking, recreational, dining, student, and faculty housing of UCLA. The bonds mature at various dates through 2040. Proceeds, including a bond premium of $12 million, were used to pay for project construction and issuance costs. The taxable bonds have a stated weighted average interest rate of 3.1 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.3 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Subsequent events

In September 2017, Limited Project Revenue Bonds totaling $3 million, including $2 million tax-exempt bonds and $1 million taxable bonds, were issued to finance or refinance the acquisition, construction, improvement, and renovation of certain facilities of UCLA. The bonds mature at various dates through 2052. Proceeds, including a bond premium of $467,178, were used to pay for project construction and issuance costs. The taxable bonds have a stated weighted average rate of 2.9 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Capital leases

Capital leases entered into with other lessors, typically for equipment, totaled $32 million and $49 million in 2017 and 2016, respectively.

Other University borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities, along with the borrowing component associated with a hybrid derivate instrument.

Other borrowings totaled $233 million and $205 million, respectively, at June 30, 2017 and 2016. This was comprised of unamortized borrowings under UCLA Medical Center swap agreements of $75 million and $26 million, in addition to mortgage and other obligations to various lenders of $158 million and $179 million, at June 30, 2017 and 2016, respectively.

As part of the University, UCLA may use uncollateralized revolving lines of credit with commercial banks for general corporate purposes and to provide interim financing for buildings and equipment.

Future debt service and hedging derivative interest-rate swaps

Future debt service payments for UCLA's fixed- and variable-rate debt and net receipts or payments on associated hedging derivative instruments for each of the five fiscal years subsequent to June 30, 2017, and thereafter are presented below. Although not a prediction by UCLA of the future interest cost of the variable-rate bonds or the impact of the hedging derivative interest-rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the hedging derivative interest-rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net hedging derivative interest-rate-swap payments will vary.

(in thousands of dollars)

Year Ended At June 30	Commercial Paper	Revenue Bonds	Capital Leases	Other University Borrowings	Total Payments	Principal	Interest
2018	$80,038	$203,729	$21,073	$15,996	$320,836	$182,366	$138,470
2019		203,596	20,988	15,993	240,577	105,552	135,025
2020		202,804	20,912	12,841	236,557	105,062	131,495
2021		208,387	20,786	10,589	239,762	111,871	127,891
2022		207,345	5,002	10,589	222,936	99,077	123,858
2023-2027		983,899	22,950	50,725	1,057,574	508,855	548,719
2028-2032		904,325	27,769	44,588	976,682	536,658	440,024
2033-2037		802,367	33,787	36,912	873,066	545,679	327,387
2038-2042		615,255	37,773	26,487	679,515	460,429	219,087
2043-2047		484,708		8,434	493,142	352,687	140,454
2048-2052		159,052			159,052	58,064	100,988
2053-2115		1,565,918			1,565,918	400,000	1,165,919
Total future debt service	**80,038**	**6,541,385**	**211,040**	**233,154**	**7,065,617**	**$3,466,300**	**$3,599,317**
Less: interest component of future payments	(162)	(3,519,737)	(79,138)	(280)	(3,599,317)		
Principal portion of future payments	**79,876**	**3,021,648**	**131,902**	**232,874**	**3,466,300**		
Adjusted by:							
Unamortized bond premium		187,379			187,379		
Present value of net minimum leases included in long-term debt			(1,166)		(1,166)		
Total debt	**$79,876**	**$3,209,027**	**$130,736**	**$232,874**	**$3,652,513**		

8.DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows at June 30 are summarized as follows:

(in thousands of dollars)	Net Pension Liability	Net Retiree Health Benefits Liability	Debt Refunding	Interest Rate Swap Agreements	Deferred Revenue	Total
At June 30, 2017						
Deferred outflows of resources	$269,798	$992,513	$47,258	$61,938		$1,371,507
Deferred inflows of resources	205,561	1,177,102	1,436		$467,502	1,851,601
At June 30, 2016						
Deferred outflows of resources	$1,171,916	$1,036,943	$53,621	$89,003		$2,351,483
Deferred inflows of resources	316,365	420,818			$497,826	1,235,009

9. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most UCLA employees participate in UCRS. UCRS consists of UCRP, a defined benefit plan funded with University and employee contributions; UCRSP, which includes defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions; and UC-VERIP, a defined benefit plan for UCLA employees who were members of PERS who elected early retirement. The Regents has the authority to establish and amend the benefit plans. Administration authority with respect to UCRS plans is vested with the President of the University as plan administrator.

Condensed financial information related to each plan in UCRS and the changes in pension liability for UCRP and UC-VERIP for the year ended June 30, 2017 is as follows: (fig.02)

(fig.02)

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA UC-VERIP	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM	TOTAL
CONDENSED STATEMENT OF PLANS' FIDUCIARY NET POSITION				
Investments at fair value	$63,004,945	$65,809	$19,503,265	$82,574,019
Participants' interests in mutual funds			3,351,454	3,351,454
Investment of cash collateral	3,820,399	4,013	3,017,118	6,841,530
Other assets	936,331	1,068	265,914	1,203,313
Total assets	**67,761,675**	**70,890**	**26,137,751**	**93,970,316**
Collateral held for securities lending	3,818,660	4,012	3,015,744	6,838,416
Other liabilities	1,828,757	1,900	639,375	2,470,032
Total liabilities	**5,647,417**	**5,912**	**3,655,119**	**9,308,448**
Net position held in trust	**$62,114,258**	**$64,978**	**$22,482,632**	**$84,661,868**
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET POSITION				
Contributions	$3,448,563		$1,330,901	$4,779,464
Net appreciation in fair value of investments	6,906,968	$7,474	1,701,958	8,616,400
Investment and other income, net	959,313	1,192	476,266	1,436,771
Total additions	**11,314,844**	**8,666**	**3,509,125**	**14,832,635**
Benefit payment and participant withdrawals	3,320,990	4,738	1,374,324	4,700,052
Other deductions	44,128	6	8,816	52,950
Total deductions	**3,365,118**	**4,744**	**1,383,140**	**4,753,002**
Increase in net position held in trust	**7,949,726**	**3,922**	**2,125,985**	**10,079,633**
Net position held in trust				
Beginning of year	54,164,532	61,056	20,356,647	74,582,235
End of year	**$62,114,258**	**$64,978**	**$22,482,632**	**$84,661,868**
CHANGES IN TOTAL PENSION LIABILITY				
Service cost	$1,807,143			$1,807,143
Interest	5,035,267	$ 2,463		5,037,730
Difference between expected and actual experience	74,664	(189)		74,475
Benefits paid, including refunds of employee contributions	(3,320,990)	(4,738)		(3,325,728)
Net change in total pension liability	**3,596,084**	**(2,464)**		**3,593,620**
Total pension liability				
Beginning of year	69,230,762	35,008		69,265,770
End of year	**$72,826,846**	**$32,544**		**$72,859,390**
Net pension liability (asset), end of year	**$10,712,588**	**$(32,434)**		**$10,680,154**

Additional information on the retirement plans can be obtained from the 2016-2017 annual report of the University of California Retirement System which can be obtained at: http://reportingtransparency.universityofcalifornia.edu/

University of California Retirement Plan (UCRP)

UCRP provides lifetime retirement income, disability protection, death benefits and post-retirement and pre-retirement survivor benefits to eligible employees of the University and its affiliates. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours of service within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code or plan provisions. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

The University's membership in UCRP consisted of the following at June 30, 2017:

	Campuses and Medical Centers	DOE National Laboratories	University of California
Retirees and beneficiaries receiving benefits	59,806	13,189	72,995
Inactive members entitled to, but not receiving benefits	76,735	10,317	87,052
Active members			
Vested	74,397	1,667	76,064
Nonvested	52,472	846	53,318
Total active members	**126,869**	**2,513**	**129,382**
Total membership	**263,410**	**26,019**	**289,429**

Contributions

Contributions to UCRP are based upon rates determined by The Regents. The Regents' funding policy provides for contributions at rates to maintain UCRP on an actuarially sound basis. While the University's independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining agreements.

The Regents determines the portion of the total contribution to be made by the employer and by the employees, and employee contribution rates for represented employees are subject to collective bargaining. Effective July 1, 2014, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members. UCLA contributions were $468 million and $676 million for 2017 and 2016, respectively.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

Net pension liability

All UCRP assets are available to pay any member's benefit. However, assets and liabilities for the campus and medical center segment of UCRP are internally tracked separately from the DOE national laboratory segments of UCRP. The net pension liability for UCRP was as follows:

(in thousands of dollars)	UCLA Campus and Medical Center *	Other Campuses and Other Medical Centers	Campuses and Medical Centers	DOE National Laboratories	University of California
At June 30, 2017					
UCRP net position	$13,329,005	$39,922,575	$53,251,580	$8,862,678	$62,114,258
Total pension liability	15,858,149	47,497,785	63,355,934	9,470,912	72,826,846
Net pension liability	**$2,529,144**	**$7,575,210**	**$10,104,354**	**$608,234**	**$10,712,588**

(in thousands of dollars)	UCLA Campus and Medical Center *	Other Campuses and Other Medical Centers	Campuses and Medical Centers	DOE National Laboratories	University of California
At June 30, 2016					
UCRP net position	$11,476,364	$34,651,122	$46,127,486	$8,037,046	$54,164,532
Total pension liability	14,873,001	44,906,747	59,779,748	9,451,014	69,230,762
Net pension liability	**$3,396,637**	**$10,255,625**	**$13,652,262**	**$1,413,968**	**$15,066,230**

***Pro-rata estimate based on UCLA's respective percentage of covered payroll.**

The University's net pension liability was measured as of June 30 and was calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1 one year prior to the measurement date. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. The University's net pension liability was calculated using the following methods and assumptions:

	2017	2016
Inflation	3.0%	3.0%
Investment rate of return	7.25	7.25
Projected salary increases	3.8 - 6.2	3.8 - 6.2
Cost-of-living adjustments	2.0	2.0

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in 2017 were based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015, based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to

produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
U.S. equity	28.5%	6.1%
Developed international equity	18.5	7.0
Emerging market equity	8.0	8.6
Core fixed income	12.5	0.8
High yield bonds	2.5	3.0
Emerging market debt	2.5	3.9
TIPS	4.5	0.4
Real estate	5.5	4.8
Private equity	8.0	11.2
Absolute return	6.5	4.2
Real assets	3.0	4.4
Total	**100.0%**	**5.6%**

Discount rate

The discount rate used to estimate the net pension liability as of June 30, 2017 and 2016 was 7.25 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRS has sufficient cash in future periods for projected benefit payments for current members. For this purpose, University, state and member contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected University and member contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2017 and 2016.

Sensitivity of the net pension liability to the discount rate assumption

The following presents the June 30, 2017 net pension liability of the University calculated using the June 30, 2017 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
UCRP	$19,885,642	$10,712,588	$3,125,799
UCRP (UCLA campus portion, Including Medical Center)*	4,825,135	2,529,144	630,147
UC-VERIP	(30,667)	(32,434)	(33,952)

*Pro-rata estimate based on UCLA's respective percentage of covered payroll.

Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources:

(in thousands of dollars)	UCLA CAMPUS AND MEDICAL CENTER*	OTHER CAMPUSES AND OTHER MEDICAL CENTERS	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
At June 30, 2017							
DEFERRED OUTFLOWS OF RESOURCES							
Difference between expected and actual experience	$50,150	$129,249	$179,399		$179,399		$179,399
Changes of assumptions or other inputs	219,648	566,093	785,741		785,741		785,741
Net difference between projected and actual earnings on pension plan investments				$7,275	7,275		7,275
Total	**$269,798**	**$695,342**	**$965,140**	**$7,275**	**$972,415**		**$972,415**
DEFERRED INFLOWS OF RESOURCES							
Difference between expected and actual experience	$40,105	$110,962	$151,067	$7,410	$158,477		$158,477
Changes of assumptions or other inputs	100,566	278,249	378,815		378,815		378,815
Net difference between projected and actual earnings on pension plan investment	64,890	179,540	244,430		244,430		244,430
Total	**$205,561**	**$568,751**	**$774,312**	**$7,410**	**$781,722**		**$781,722**

(in thousands of dollars)	UCLA CAMPUS AND MEDICAL CENTER*	OTHER CAMPUSES AND OTHER MEDICAL CENTERS	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
At June 30, 2016							
DEFERRED OUTFLOWS OF RESOURCES							
Difference between expected and actual experience	$34,461	$98,854	$133,315		$133,315		$133,315
Changes of assumptions or other inputs	462,707	1,327,336	1,790,043		1,790,043		1,790,043
Net difference between projected and actual earnings on pension plan investments	674,748	1,935,604	2,610,352	$450,700	3,061,052	$ 3,299	3,064,351
Total	**$1,171,916**	**$3,361,794**	**$4,533,710**	**$450,700**	**$4,984,410**	**$3,299**	**$4,987,709**
DEFERRED INFLOWS OF RESOURCES							
Difference between expected and actual experience	$74,556	$195,926	$270,482	$11,422	$281,904		$281,904
Changes of assumptions or other inputs	241,809	635,445	877,254		877,254		877,254
Total	**$316,365**	**$831,371**	**$1,147,736**	**$11,422**	**$1,159,158**		**$1,159,158**

*Pro-rata estimate based on UCLA's respective percentage of covered payroll.

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2017 related to pensions that will be recognized in pension expense during the next five years are as follows:

(in thousands of dollars)	UCLA CAMPUS AND MEDICAL CENTER*	OTHER CAMPUSES AND OTHER MEDICAL CENTERS	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
2018	$(100,287)	$(300,380)	$(400,667)	(45,287)	(445,954)	$(403)	$(446,357)
2019	212,603	636,788	849,391	107,064	956,455	877	957,332
2020	91,794	274,941	366,735	45,075	411,810	376	412,186
2021	(158,645)	(475,174)	(633,819)	(106,987)	(740,806)	(850)	(741,656)
2022	2,300	6,888	9,188		9,188		9,188
Total	**$47,765**	**$143,063**	**$190,828**	**(135)**	**$190,693**	**$0**	**$190,693**

*Pro-rata estimate based on UCLA's respective percentage of covered payroll.

Defined Contribution Plan

Effective July 1, 2016, newly hired (or becoming eligible) employees can elect a defined contribution option instead of participating in UCRP. For employees who elect this option, both the University and the participants make mandatory contributions, on a pretax basis, on eligible pay up to the IRS compensation limit. The participant contributes 7.0 percent and the University contributes 8.0 pecent. University contributions are fully vested after one year of service. For certain newly hired (or becoming eligible) employees who elect to participate in UCRP, the University and the participants make mandatory contributions to the DC Plan on eligible pay up to the IRS limit. Participants contribute 7.0 percent on eligible pay and the University contributes 5.0 percent for designated faculty and 3.0 percent for staff. University contributions fully vest after five years of service.

The University makes DC Plan retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which the University contributes. The contribution rate is 7.0 percent of eligible salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis. The University may also contribute on behalf of eligible senior managers. Employer contributions to the DC Plan were $13.2 million and $4.9 million for the years ended June 30, 2017 and 2016, respectively.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at the University who are not currently participating in UCRP or another defined benefit plan to which the University contributes (Safe Harbor participants). Safe Harbor participation includes certain University student employees and resident aliens with F-1 and J-1 visa status. Safe Harbor participants contribute 7.5 percent of their gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes.

All University employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on the earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit. The University may also make DC Plan contributions on behalf of eligible senior managers.

The Supplemental Defined Contribution Plan (SDC Plan) accepts employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. There were no assets or employer contributions to the SDC Plan for the years ended June 30, 2017 and 2016.

Tax Deferred 403(b) Plan

The University's Tax-Deferred 403(b) Plan (403(b) Plan) accepts pretax employee contributions. The University may also make contributions on behalf of certain members of management. Employer contributions to the 403(b) Plan were $3.2 million and $1.5 million for the years ended June 30, 2017 and 2016, respectively.

457(b) Deferred Compensation Plan

The University's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. The University may also make contributions on behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2017 and 2016.

Participants in the DC Plan, the SDC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and non-elective contributions to investment funds managed by the Chief Investment Officer. They may also invest account balances in certain mutual funds. The participants' interests in mutual funds is shown separately in the Statement of Plans' Fiduciary Net Position.

University of California Voluntary Early Retirement Incentive Plan (UC-PERS)

UC-PERS is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC-PERS members who elected early retirement under provisions of the Plan. The University contributed to PERS on behalf of these UC-PERS members. As of July 1, 2017, there are 522 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University previously made contributions to the Plan sufficient to maintain the promised benefits. The actuarially determined contributions are zero for the years ending June 30, 2017 and 2016.

10. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental, and vision, to eligible retirees (and their eligible family members) of the University of California and its affiliates through the University of California Retiree Health Benefit Trust (UCRHBT). The Regents has the authority to establish and amend the plan.

Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT. The University receives retiree health contributions from retirees that are deducted from their UCRP benefit payments. The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees. UCRHBT reimburses the University for these amounts.

Condensed financial information for the changes in retiree health benefits liability for the year ended June 30, 2017 is as follows:

(in thousands of dollars)	UCLA Campus and Medical Center *	Other Campuses and Other Medical Centers	Campuses and Medical Centers	LBNL	University of California
Contributions	$109,565	$375,862	$485,427	$20,242	$505,669
Investment income, net	137	469	606		606
Total additions	**109,702**	**376,331**	**486,033**	**20,242**	**506,275**
Insurance premiums, net	(101,028)	(346,576)	(447,604)	(20,242)	(467,846)
Other deductions	(961)	(3,295)	(4,256)		(4,256)
Total deductions	**(101,989)**	**(349,871)**	**(451,860)**	**$(20,242)**	**(472,102)**
Increase in net position held in UCRHBT	7,713	26,460	34,173		34,173
Net position held in UCRHBT, beginning of year	16,373	56,168	72,541		72,541
Net Position held in UCRHBT, end of year	**$24,086**	**$82,628**	**$106,714**		**$106,714**

*Pro-rata estimate based on UCLA's respective percentage of covered payroll.

(in thousands of dollars)	UCLA Campus and Medical Center *	Other Campuses and Other Medical Centers	Campuses and Medical Centers	LBNL	University of California
CHANGES IN TOTAL RETIREE HEALTH BENEFITS LIABILITY					
Service Cost	$228,837	$752,908	$981,745	$22,899	$1,004,644
Interest	145,903	480,044	625,947	20,332	646,279
Difference between expected and actual experience	22,203	73,051	95,254	6,026	101,280
Changes of assumptions and other inputs	(818,040)	(2,889,881)	(3,707,921)	(120,003)	(3,827,924)
Retiree contributions	15,792	54,176	69,968	2,748	72,716
Benefits paid	(101,028)	(346,576)	(447,604)	(20,242)	(467,846)
Net change in total retiree health benefits liability	**(506,333)**	**(1,876,278)**	**(2,382,611)**	**(88,240)**	**(2,470,851)**
Total retiree health benefits liability					
Beginning of year	4,884,420	16,284,392	21,168,812	699,177	21,867,989
End of year	**$4,378,087**	**$14,408,114**	**$18,786,201**	**$610,937**	**$19,397,138**
Net retiree health benefit liability, end of year	**$4,354,001**	**$14,325,486**	**$18,679,487**	**$610,937**	**$19,290,424**

*Pro-rata estimate based on UCLA's respective percentage of covered payroll.

Benefits

Retirees are eligible for medical and dental benefits. The costs of the medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Retirees who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2017:

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	41,157	1,817	42,974
Active members entitled to, but not yet receiving benefits	122,932	2,578	125,510
Total membership	164,089	4,395	168,484

Contributions

The University does not pre-fund retiree health benefits and instead provides for benefits based upon projected pay-as-you-go financing. University and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability. The assessment rates were $2.93 and $2.98 per $100 of UCRP covered payroll effective July 1, 2016 and 2015, respectively.

In addition to the explicit University contribution provided to retirees, there is an "implicit subsidy." The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the University.

Net retiree health benefits liability

The University's net retiree health benefits liability was measured as of June 30 based on rolling forward the results of the actuarial valuations as of July 1. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. Significant actuarial methods and assumptions used to calculate the University's net retiree health benefits liability were:

(shown as percentage)	2017	2016
Discount rate	3.6%	2.9%
Inflation	3.0	3.0
Investment rate of return	3.0	3.0
Health care cost trend rates	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 and later years	Initially ranges from 6.3 to 9.0 decreasing to an ultimate rate of 5.0 for 2031 and later years

The actuarial assumptions are based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029 and with ages then set back one year for males and set forward five years for females.

Sensitivity of net retiree health benefits liability to the health care cost trend rate

The following presents the June 30, 2017 net retiree health benefits liability of the University calculated using the June 30, 2017 health care cost trend rate assumption with initial trend ranging from 5.0 percent to 9.5 percent grading down to an ultimate trend of 5.0 percent over 15 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (4.0% TO 8.5% DECREASING to 4.0%)	CURRENT DISCOUNT (5.0% TO 9.5% DECREASING TO 5.0%)	1% INCREASE (6.0% TO 10.5% INCREASING TO 6.0%)
Net retiree health benefit liability: University of California	16,401,133	19,290,424	23,275,729
Net retiree health benefit liability: UCLA Campus and Medical Center	3,700,338	4,354,001	5,257,712

Discount rate

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The discount rate was based on the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate since UCHRBT plan assets are projected not sufficient to make benefit payments.

Sensitivity of net retiree health benefits liability to the discount rate

The following presents the June 30, 2017 net retiree health benefits liability of the University calculated using the June 30, 2017 discount rate assumption of 3.58 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (2.58%)	CURRENT TREND (3.58%)	1% INCREASE (4.58%)
Net retiree health benefit liability: University of California	23,100,556	19,290,424	16,466,009
Net retiree health benefit liability: UCLA Campus and Medical Center	5,216,748	4,354,001	3,715,838

Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources and deferred inflows of resources for retiree health benefits were related to the following sources:

2017 *(in thousands of dollars)*	**UCLA Campus and Medical Center**	**Other Campuses and Other Medical Centers**	**Campuses and Medical Centers**	**LBNL**	**University of California**
DEFERRED OUTFLOWS OF RESOURCES					
Difference between expected and actual experience	$19,816	$65,196	$85,012	$5,084	$90,096
Changes of assumptions or other inputs	971,916	2,925,087	3,897,003	116,490	4,013,493
Net difference between projected and actual earnings on plan investments	781	2,571	3,352		3,352
Total	**$992,513**	**$2,992,854**	**$3,985,367**	**$121,574**	**$4,106,941**
DEFERRED INFLOWS OF RESOURCES					
Difference between expected and actual experience	$343,059	$1,128,722	$1,471,781	$52,216	$1,523,997
Changes of assumptions or other inputs	834,043	2,475,177	3,309,220	101,253	3,410,473
Total	**$1,177,102**	**$3,603,899**	**$4,781,001**	**$153,469**	**$4,934,470**

2016 *(in thousands of dollars)*	**UCLA Campus and Medical Center**	**Other Campuses and Other Medical Centers**	**Campuses and Medical Centers**	**LBNL**	**University of California**
DEFERRED OUTFLOWS OF RESOURCES					
Changes of assumptions or other inputs	$1,036,391	$3,416,702	$4,453,093	$140,760	$4,593,853
Net difference between projected and actual earnings on plan investments	552	1,821	2,373		2,373
Total	**$1,036,943**	**$3,418,523**	**$4,455,466**	**$140,760**	**$4,596,226**
DEFERRED INFLOWS OF RESOURCES					
Difference between expected and actual experience	420,818	$1,252,577	$1,673,395	$62,659	$1,736,054
Total	**$420,818**	**$1,252,577**	**$1,673,395**	**$62,659**	**$1,736,054**

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2017 related to retiree health benefits that will be recognized in retiree health benefit expense during the next five years and thereafter are as follows:

(in thousands of dollars)	**UCLA Campus and Medical Center**	**Other Campuses and Other Medical Centers**	**Campuses and Medical Centers**	**LBNL**	**University of California**
2018	(7,971)	(24,921)	(32,892)	(3,981)	(36,873)
2019	(7,971)	(24,921)	(32,892)	(3,981)	(36,873)
2020	(8,051)	(25,178)	(33,229)	(3,981)	(37,210)
2021	(8,128)	(25,439)	(33,567)	(3,981)	(37,548)
2022	(8,226)	(25,757)	(33,983)	(8,841)	(42,824)
Thereafter	(144,242)	(484,829)	(629,071)	(7,130)	(636,201)
Total	**(184,589)**	**(611,045)**	**(795,634)**	**(31,895)**	**(827,529)**

11. ENDOWMENTS AND FOUNDATION GIFTS

The value of endowments and gifts held and administered by the University or by UCLA's foundations, exclusive of income distributed to be used for operating purposes, at June 30, 2017 and 2016, are as follows:

	UCLA		Foundations	
(in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
Restricted				
Endowments	$282,056	$265,827	$1,098,820	$1,000,954
Annuity and life income	1,163	72	12,661	10,134
Nonexpendable	**283,219**	**265,899**	**1,111,481**	**1,011,088**
Endowments	531,462	453,724	269,626	179,884
Funds functional as endowments	609,169	553,646	557,636	493,977
Annuity and life Income	363	323	22,485	18,638
Gifts	253,922	241,205	639,670	640,994
Expendable	**1,394,916**	**1,248,898**	**1,489,417**	**1,333,493**
Total restricted	**1,678,135**	**1,514,797**	**2,600,898**	**2,344,581**
Unrestricted				
Endowments	1,850	1,657		
Funds functional as endowments	860,905	763,278		
Gifts	1,073	1,468	157,453	66,831
Total unrestricted	**863,828**	**766,403**	**157,453**	**66,831**
Total	**$2,541,963**	**$2,281,200**	**$2,758,351**	**$2,411,412**

University endowments

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. UCLA's net appreciation available to meet future spending needs, subject to the approval of The Regents, amounted to $1.1 billion and $0.9 billion at June 30, 2017 and 2016, respectively.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to UCLA from endowments held by the University was $40 million and $37 million for years ended June 30, 2017 and 2016, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $39 million and $34 million for the years ended June 30, 2017 and 2016, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $92 million and $90 million at June 30, 2017 and 2016, respectively.

UCLA foundations

During the years ended June 30, 2017 and 2016, gifts of $242 million ($83 million from endowment investments and $159 million from current funds) and $222 million ($82 million from endowment investments and $139 million from current funds), respectively, were transferred to UCLA from these foundations.

12. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2017 and 2016, are as follows:

(in thousands of dollars)	**2017**	**2016**
Instruction	$2,250,536	$2,211,638
Research	826,023	827,755
Public service	144,673	139,978
Academic support	718,396	682,775
Student services	182,578	171,931
Institutional support	272,233	288,993
Operations and maintenance of plant	102,534	113,651
Student financial aid	125,445	60,780
Medical Center	2,186,311	2,191,929
Auxiliary enterprises	388,408	370,201
Depreciation	374,672	364,284
Impairment of capital assets	2,305	3,712
Other	19,105	26,623
Total	**$7,593,219**	**$7,454,250**

13. SEGMENT INFORMATION - MEDICAL CENTER

The University's medical centers' revenues are pledged in support of the outstanding University of California Medical Center Pooled Revenue Bonds. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care. Condensed financial statement information for the UCLA Medical Center for the years ended June 30, 2017 and June 30, 2016 is as follows:

(in thousands of dollars)	**2017**	**2016**
Revenue bonds outstanding	$729,825	$700,315
Related debt service payments	46,008	44,507
Bonds due serially through	2,049	2,049
CONDENSED STATEMENT OF NET POSITION		
Current assets	1,471,268	1,319,490
Capital assets, net	1,749,540	1,813,446
Other assets	322,112	299,918
Total assets	**3,542,920**	**3,432,854**
Total deferred outflows of resources	**516,101**	**774,292**
Current liabilities	404,441	421,741
Long-term debt	934,794	837,071
Other noncurrent liabilities	2,564,310	2,920,816
Total liabilities	**3,903,545**	**4,179,628**
Total deferred inflows of resources	**421,778**	**209,014**
Net investment in capital assets	790,467	959,252
Restricted	11,138	11,360
Unrestricted	(1,067,907)	(1,152,108)
Total net position	**$(266,302)**	**$(181,496)**

(in thousands of dollars)	**2017**	**2016**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	$2,502,552	$2,364,038
Operating expenses	(2,241,931)	(2,202,804)
Depreciation expense	(142,841)	(134,100)
Operating income	**117,780**	**27,134**
Nonoperating expenses, net	(36,579)	(24,398)
Income (loss) before other changes in net position	**$81,201**	**$2,736**
Health systems support	(175,341)	(176,852)
Transfers to university, net		(8,950)
Changes in allocation for pension payable from (to) university	5,834	(452)
Other, including donated assets	3,500	16,212
Decrease in net position	**$ (84,806)**	**$(167,306)**
Net position - beginning of year	(181,496)	(14,190)
Net position - end of year	**$(266,302)**	**$(181,496)**

CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$304,081	$430,799
Noncapital financing activities	(173,112)	(175,258)
Capital and related financing activities	(43,206)	(102,284)
Investing activities	16,381	15,583
Net increase in cash and cash equivalents	**$104,144**	**$168,840**
Cash and cash equivalents* - prior year	903,617	734,777
Cash and cash equivalents*	**$1,007,761**	**$903,617**

***Cash and cash equivalents on the medical center's financial statements are included in the University's Short Term Investment Pool**

Summarized financial information for UCLA Medical Center is from the collective University of California medical centers' separately audited financial statements. Certain revenue, such as financial support from the state for clinical teaching programs, is classified as state educational appropriations rather than medical center revenue in UCLA's Statement of Revenues, Expenses and Changes in Net Position. However, in the medical centers' audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue. Additional information on the individual University of California medical centers can be obtained from their audited financial statements, which are available at http://reportingtransparency.universityofcalifornia.edu/.

Multiple purpose and housing system projects (including student and faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities, and certain academic and administrative facilities) are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

14. CAMPUS FOUNDATION INFORMATION

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach, and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University.

The UCLA Foundation was established in 1945 to raise funds to benefit UCLA. In addition, the Jonsson Cancer Center Foundation/UCLA (JCCF) was established in 1956 with the primary purpose to raise funds for cancer research at UCLA. These two foundations are component units of the University. The combined financial statements of these two foundations are presented discretely in a separate column on the University's financial statements because of their nature and significance of their relationship with the University.

Condensed financial statement information related to UCLA's foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the years ended June 30, 2017 and 2016 is as follows:

	UCLA Foundations		
(in thousands of dollars)	**UCLA Foundation***	**Jonsson Cancer Center Foundation**	**Total**
Year Ended June 30, 2017			
CONDENSED STATEMENT OF NET POSITION			
Current assets	$475,954	$14,038	$489,992
Noncurrent assets	2,543,888	16,871	2,560,759
Total assets	**3,019,842**	**30,909**	**3,050,751**
Current liabilities	256,772	1,456	258,228
Noncurrent liabilities	32,449		32,449
Total liabilities	**289,221**	**1,456**	**290,677**
Deferred inflows of resources	**1,723**		**1,723**
Restricted	2,580,456	20,442	2,600,898
Unrestricted	148,442	9,011	157,453
Total net position	**$2,728,898**	**$29,453**	**$2,758,351**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Operating revenues	$287,297	$18,193	$305,490
Operation expenses	(279,112)	(13,099)	(292,211)
Operating income	**8,185**	**5,094**	**13,279**
Nonoperating revenues	261,892	1,049	262,941
Income before other changes in net position	**270,077**	**6,143**	**276,220**
Permanent endowments	70,719		70,719
Increase in net position	**340,796**	**6,143**	**346,939**
Net position- June 30,2016	2,388,102	23,310	2,411,412
Net position-June 30,2017	**$2,728,898**	**$29,453**	**$2,758,351**
CONDENSED STATEMENT OF CASH FLOWS			
Net cash provided (used) by:			
Operating activities	$(44,603)	$(361)	$(44,964)
Noncapital financing activities	52,464		52,464
Investing activities	(7,545)	(252)	(7,797)
Net increase (decrease) in cash and equivalents	**316**	**(613)**	**(297)**
Cash and equivalents-June 30,2016	4,794	782	5,576
Cash and equivalents - June 30, 2017	**$5,110**	**$169**	**$5,279**

*Net of investments held for JCCF

(in thousands of dollars)	UCLA Foundations UCLA Foundation*	Jonsson Cancer Center Foundation	Total
Year ended June 30, 2016			
CONDENSED STATEMENT OF NET POSITION			
Current assets	$424,946	$9,068	$434,014
Noncurrent assets	2,235,004	15,089	2,250,093
Total assets	**2,659,950**	**24,157**	**2,684,107**
Current liabilities	240,958	847	241,805
Noncurrent liabilities	29,430		29,430
Total liabilities	**270,388**	**847**	**271,235**
Deferred inflows of resources	**1,460**		**1,460**
Restricted	2,329,702	14,879	2,344,581
Unrestricted	58,400	8,431	66,831
Total net position	**$2,388,102**	**$23,310**	**$2,411,412**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Operating revenues	$235,119	$23,417	$258,536
Operation expenses	(252,154)	(11,744)	(263,898)
Operating income (loss)	**(17,035)**	**11,673**	**(5,362)**
Nonoperating expenses	(62,147)	(216)	(62,363)
Income (loss) before other changes in net position	**(79,182)**	**11,457**	**(67,725)**
Permanent endowments	70,138		70,138
Increase (decrease)in net position	**(9,044)**	**11,457**	**2,413**
Net position - June 30,2015	2,397,146	11,853	2,408,999
Net position-June 30,2016	**$2,388,102**	**$23,310**	**$2,411,412**
CONDENSED STATEMENT OF CASH FLOWS			
Net cash provided (used) by:			
Operating activities	$(62,025)	$(738)	$(62,763)
Noncapital financing activities	59,081		59,081
Investing activities	3,828	1,332	5,160
Net Increase in cash and equivalents	**884**	**594**	**1,478**
Cash and equivalents - June 30,2015	3,910	188	4,098
Cash and equivalents - June 30, 2016	**$4,794**	**$782**	**$5,576**

*Net of investments held for JCCF

Additional information for the foundations can be found at:
www.uclafoundation.org and www.cancer.ucla.edu

15. COMMITMENTS AND CONTINGENCIES

Contractual commitments

Amounts committed but unexpended for construction projects totaled $460 million at June 30, 2017.

UCLA leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2017 and 2016 were $84 million and $69 million, respectively. The terms of operating leases extend through March 2042.

Future minimum payments on operating leases with initial or remaining non-cancelable terms in excess of one year are as follows:

(in thousands of dollars)

Year Ended June 30	Minimum annual lease payments
2018	$64,761
2019	55,973
2020	46,625
2021	36,970
2022	27,333
2023-2027	50,683
2028-2032	18,110
2033-2037	18,110
2038-2042	17,204
Total	**$335,769**

Contingencies

Substantial amounts are received and expended by UCLA, including the UCLA Medical Center, under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations, and other programs. UCLA management believes that any liabilities arising from such audits will not have a material effect on UCLA's financial position.

UCLA and the foundations are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, UCLA management and campus counsel are of the opinion that the outcome of such matters will not have a material effect on UCLA's financial position.

Required Supplementary Information

The required supplementary information can be obtained from the 2016-17 annual report of the University of California Retirement System, which can be obtained at:
http://reportingtransparency.universityofcalifornia.edu/

For more information, contact Financial Management and Reporting at cfs_fmr@finance.ucla.edu

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